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Corporate governance between the theoretical framework and application mechanisms: literature review

حوكمة الشركات بين الإطار النظري وآليات التطبيق: مراجعة الأدبيات

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ملخص

تهدف هذه الدراسة إلى تحليل الجوانب النظرية لحوكمة الشركات من حيث المبادئ والأهداف، الأسس والأبعاد المختلفة، كما تهدف لوضع تصور عملي لآليات تنفيذ حوكمة الشركات في مختلف المؤسسات الاقتصادية والحكومية، وكذلك تقييم الاطار النظري مقارنة بآليات التطبيق وتحديد الفجوات.

وقد توصلت الدراسة إلى وجود فجوات كبيرة بين الإطار النظري لحوكمة الشركات، وبين آليات التنفيذ خاصة في مجال الشفافية والمساءلة والالتزام بمبادئ المسؤولية الاجتماعية.

الكلمات الدالة: الحوكمة، الاستدامة، أصحاب المصلحة، الشركات.

تصنيف جال: M140, M480, M420.

Abstract

This study aims to analyze the theoretical aspects of corporate governance in terms of principles and objectives, foundations and different dimensions. It also aims to develop a practical vision of the mechanisms for implementing corporate governance in various economic and governmental institutions, as well as evaluating the theoretical framework compared to the implementation mechanisms and identifying gaps.

The study concluded: There are large gaps between the theoretical framework of corporate governance, and the implementation mechanisms, especially in the field of transparency, accountability, and commitment to the principles of social responsibil.

Keywords: governance, sustainability, stakeholders, companies.

Jel Classification Codes: M140, M480, M420.

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Introduction

Globalization and the liberalization of financial markets and the transformation of many countries of the world to the concept of a free economy have led to the opening of new international markets through which companies can achieve high profits that enable them to expand in the field of their activities, create new investment opportunities and increase job opportunities in a way that leads to the growth and progress of the economies of countries to which these companies belong. At the same time, these factors led companies to be exposed to fierce competition and capital fluctuations, and accordingly, national companies became aware that in order to expand and be able to gain the advantages of globalization and liberalization of financial markets and avoid competition, they need levels of capital that exceed the capabilities of traditional sources of financing. Accordingly, corporate governance has been promoted in the past few years by international organizations to achieve societal development in developing countries, as a result of the failure of government departments to achieve this with the necessary effectiveness and efficiency.

The importance of this modern concept must be translated by a sound application of its principles, away from fraud, forgery, formal treatments to show fake profits, negligence, insufficiency and collusion, which resulted in financial scandals starting with the bankruptcy of Enron and WorldCom and other companies exposed to financial difficulties.
Commitment to applying the principles of corporate governance, which is one of the basic pillars for the growth of companies, and commitment to the rules of governance and its requirements of disclosure, transparency and equality among shareholders. This would support the investment decisions of local and foreign investors in the market and increase confidence in the companies present in it, for economic and structural reform, and thus improve the performance of these companies.

The commitment of developing countries to the governance methodology has become very important, as it involves the integration of the roles of government administration, the private sector and civil society institutions, through participation to redraw the roles of each of them in order to achieve comprehensive sustainable development.

Problematic

Based on the foregoing, the following problem was raised:
What is the meaning of corporate governance and what are the mechanisms of its application?

Hypotheses

- There are large gaps between the theoretical framework of corporate governance and its implementation mechanisms.
- The absence of transparency, accountability, and non-compliance with the principles of social responsibility leads to weak corporate governance.

Objectives

- Through this research, we aim to highlight the importance of corporate governance and its role in improving the performance of the organization, as well as highlighting the gap between the theoretical concepts of governance and the mechanisms of its application.

Methodology

- In this research, we relied on the descriptive approach to understand the concepts and try to analyze them

Previous studies

A- Santosh Pande, The Theoretical Framework for Corporate Governance, SSRN Electronic Journal, vol 11, issu 03, 2011.
This study reached the following results:
- A governance model based on the concept of Trusteeship, while providing fresh insights, suffers from problems in implementation and remains a goal to aim for. These alternative frameworks have, therefore, not been of much practical use to the board members in helping them to decide what constitutes the “right” decision.

B- Khaled Aljifri & Mohamed Moustafa, The Impact of Corporate Governance Mechanisms on the Performance of UAE Firms: An Empirical Analysis, Journal of Economic and Administrative Sciences, Volume 23 Issue 2, 2017.
This study reached the following results:
- The results of this study show that the governmental ownership, the debt ratio (total debt/total assets), and the payout dividends ratio have a significant impact on the firm performance; whereas the institutional investors, the board size, the firm size (sales), and the audit type show a non-significant impact.

C- Joe Christopher, Corporate governance—A multi-theoretical approach to recognizing the wider influencing forces impacting on organizations, Critical Perspectives on Accounting journal, Volume 21, Issue 8, 2010.

This study reached the following results:

- This paper provides a case for incorporating a number of management-based theories to augment agency theory in recognizing these wider environmental influencing forces and the consequent extended governance paradigm it creates.
- The paper argues that the proposed approach will narrow the theoretical practical gap in governance and will consequently have policy implications on governance guidelines.

D- Jackie Di Vito & Kim Trottier, A Literature Review on Corporate Governance Mechanisms: Past, Present, and Future, Accounting Perspectives Journal, Volume21, Issue2, june 2022.

This study reached the following results:

- This study is a literature review on corporate governance.
- Its objective is to consolidate our knowledge in this field, examine its evolution, and propose avenues for future research. In our review of the past and present literature on various governance measures and their effect on firm performance, we find that the empirical results are mixed for many of the governance mechanisms studied.
- The paper suggest that these mixed results may be due to applying a "one size fits all" set of governance measures, which is not effective for all types of firms due to the complexity of organizations and the differences in ownership structures.

I. The emergence and development of corporate governance

Most references indicate that corporate governance did not appear until the mid-eighties, but the issues related to this term preceded the emergence of a long time since 1840. The world was at the beginning of the industrial revolution, and the accompanying lack of clarity regarding investment risks and the availability of information, This period was accompanied by some catalysts such as the expected rise in returns and the increase in inventories. All of this contributed to the first collapse in the history of the American and British financial markets in 1856. Although the rest of the world did not have developed markets at the same level as these two countries, the deterioration of the situation in these two markets negatively affected the rest of the economies of the world. (Robert A. G. Monks, 2011, p. 26)

In order to restore confidence to investors, new laws have been issued that work on the principle of (Punish the bad apples in the basket), which is based on punishing some people who are proven guilty, with the aim of restoring confidence to investors. Accordingly, the collapse that the financial markets witnessed in 1873 was the result of the weakness of the external review of companies, while the collapse that occurred in 1929 was due to the weak supervision of the financial markets by the legislators of those markets, which contributed to the loss of shareholders. Appearance of (Securities Exchange Commission) (SEC). (Kluyver, 2013, p. 103)

The emergence of the agency theory and its associated shedding light on the problems that arise as a result of conflict of interests between members of the boards of directors of companies and shareholders, has led to increased interest and thinking about the need for a set of laws and regulations that work to protect the interests of shareholders and limit the financial and administrative manipulation that it performs Some members of the board of directors, with the aim of maximizing their own interests. (Chinoperekweyi, 2018, p. 48)

The term corporate governance was first addressed by A. BERLE et G.MEANS in 1932, who studied the results of the separation between ownership and management in light of the situation reached by joint stock companies, starting from the work carried out by Adam SMITH in 1776, where he stated He said: "The directors of companies, being the ones responsible for managing the money of all the shareholders instead of their own money, cannot be forced or compelled to care enough about the shareholders' interests as if it were their own money." (Mallin, 2019, p. 220)

Accordingly, A.BERLE & G.MEANS concluded that corporate governance is concerned with controlling the relationship between managers and shareholders. (A. Berle, Jr & Gardiner C. Means, 1930, p. 60)

In 1972, A.A. ALCHIAN & H. DEMSETZ raises questions about the mechanisms that make up the administrative system, revolving around the main role that the manager plays in solving problems related to control, production and reward. (A. Alchian & Demsetz, 1972, p. 781)

The situation of profit distribution among all concerned parties was also discussed, which creates several control problems. He stressed that the shareholders have the right to evaluate the managers in the event of their weakness or taking decisions that violate the public interests (poor performance).

In 1976, Jensen & Meckling paid attention to the concept of corporate governance, highlighting its importance in limiting or minimizing the problems that may arise from the separation of ownership from management, which was represented by the agency theory, followed by a group of scientific and practical

studies that emphasized the importance of adhering to the principles of corporate governance. Companies and their impact on increasing investor confidence in the company and members of its board of directors, and thus the ability of countries to attract new investors and thus contribute to achieving comprehensive development. This was accompanied by the interest of many countries in the concept of corporate governance through the issuance of a set of regulations, laws and reports by each of its scientific bodies and legislators that emphasize the importance of adhering to the application of corporate governance principles. (Michael C & MECKLING, 2016, p. 129)

In contrast to Jensen & Meckling, E. F. FAMA in 1980 directed his study towards the special cases of the separation of ownership and management of joint stock companies. On the one hand, he was concerned with ownership, related primarily to the factors of production, and stipulated that controlling the managers is not the task of the shareholders, and on the other hand, a difference between the tasks of management and the tasks of risk management. Accordingly, he emphasized the necessity of the agency theory if the owner is different from the manager. (G. CHAREAUX, 2019, p. 4)

In 1987, the National Committee on Deviations in the Preparation of American Financial Statements issued its report called (Treadway), which included a set of recommendations for the application of corporate governance rules and the related prevention of fraud and manipulation in the preparation of financial statements, by paying attention to the concept of the internal control system. Strengthening the profession of external audit. (Rogier & Schelleman, 2012, p. 198)

In the nineties of the last century there were fundamental changes, the most important of which are: (H. Kent & Anderson, 2010, p. 214)

- Companies link management incentives to the value of shares by granting the board of directors and senior management their incentives in the form of shares or stock options that can be exercised immediately. Therefore, the management's main concern is trying to raise the market value of the shares, sometimes with real operations and at other times through fraud. manipulation of financial reports;
- Increasing the value of the fees for consulting services provided by the external auditor and reaching about three times the audit fees in some cases, which in many cases led to the auditor's silence and not raising problems with the administration so as not to assign these services to other parties.

The problems have led to an increase in official interest in strengthening corporate governance systems, so many committees were formed, and many laws and legislations were issued, focusing on strengthening the scope of governance and its internal and external mechanisms, including emphasizing the role of

accounting and auditing. The report of the CADBURY Committee was issued in 1992, and the HAMPLE Committee in 1998. The following is a review of the main elements that made up the reports of the two committees: (Thomsen & Conyon, 2012, p. 163)

I.1. CADBURY Commission Report 1992

This report was issued in December 1992, by the Committee on Financial Aspects of Corporate Governance that was formed by the Financial Reports formed in 1990 and the London Stock Exchange.

The report of this committee developed a concept, called the concept of obligation or explanation, which demands that companies abide by the application of standards and provide an explanation for non-compliance with these standards. The report included the best practices guide that was included in the requirements for listing companies on the London Stock Exchange.

The report may consist of the following elements: (Vinten , 2001, p. 55)

- The role of the board of directors and the role of the administrative environment: it is represented in setting strategies, monitoring the management of companies, preparing reports to shareholders about their management of the company, and indicating the effectiveness of the internal control system.
- It is necessary to separate the role of the board of directors from the role of the managing director
- The Board of Directors is subject to the accountability of shareholders, and each of them must activate that accountability
- Size, composition, independence of the board of directors and control procedures: the board of directors includes a sufficient number of qualified non-executive directors.
- Formation of Board Committees: Where the nomination for membership of the Board of Directors and the Audit Committee is from among the non-executive directors, to enhance transparency in the process of appointing members of the Board of Directors and the Oversight Committee.
- Remuneration of the members of the Board of Directors: A committee is formed to determine the remuneration of the executive directors, and that the majority of this committee will be composed of non-executive directors. And that there should be full disclosure of the remunerations and salaries of the chairman of the board of directors and executive directors.
- Internal control structure: where the board of directors presents a balanced assessment of the company's financial position, and also submits a report on the

effectiveness of the internal control systems, and that the auditor's fees for the audit process and other services are disclosed.

- Rights of shareholders and stakeholders: the need for shareholders to communicate their views through direct contact with the Board of Directors, or through the general assembly, and stressed the importance of voting as one of the main rights of shareholders.

I.2. HAMPLE COMMISSION REPORT

This committee was formed to re-examine the recommendations made by both the Cadbury Committee and the Greenbury Committee, which recommended the adoption of best practices instead of general rules in order to confront companies avoiding strict rules and allowing greater freedom, so that these recommendations have greater applicability in all types of Companies, and this committee believes that the best practice depends mainly on the status and condition of the company applied to it, and this committee has adopted the relationship between the owners and the agent as a basis for understanding corporate governance in order to enhance the rights of shareholders. And considered that this is the primary role of the company, and in this way it has developed the view of governance according to the Cadbury Committee, which focused on preventing the misuse of power by the management of the company, and to reinforce this view, the Hempel report focused on providing a greater opportunity for shareholders to understand and participate in the various issues of the company. . The East Asian crises of 1997 emphasized the need to adopt the concept of corporate governance. (Chinoperekweyi, 2018, p. 296)

In 1999, the New York Stock Exchange (NYSE) issued its report known as the Blue Ribbon Report, which focused on the effectiveness of the role that audit committees can play in partnership with regard to compliance with the principles of corporate governance.

At the international level, the report issued by the Organization for Economic Cooperation and Development (OCDE) in 1999 entitled: Principles of Corporate Governance is the first official international recognition of this concept. (Robert A. G. Monks, 2011, p. 93)

In the wake of the financial meltdowns of the largest American companies (ENRON 2002, ANDERSON 2002), which emphasized the inability of the control systems of public administrations of companies, the Sarbaes Oxley Act was issued which focused on the role of corporate governance in eliminating financial and administrative corruption, which many companies face through Activating the role that non-executive members play in corporate boards of directors. (Anderson, 2002, p. 22)

II. Corporate Governance Concept

There have been many names given to governance, and opinions differed in translating the term Corporate Governance, as some saw it as good management or wise management, and others called it institutional control, but the most common and widespread in the current period is the term corporate governance. (ZHANG, 2018, p. 61)

The writings did not agree on a clear and specific concept of this term, as thinkers and researchers as well as international and professional organizations raced to define it according to its orientations. The diversity of definitions was due to the overlap in many organizational, economic, financial and social matters, which affects every society and economy separately. However, we can list a set of definitions, after which we will try to derive the basic meanings and concepts of corporate governance.

If we want to define governance in one word, it means “discipline” and by that means discipline in everything: (Gloria Y & Garry , 2011, p. 411)

- Discipline in the performance of every work of every individual related to the business of the establishment;
- Behavioral and ethical discipline and balance in achieving the interests of the parties associated with the business of the enterprise;
- Discipline of management and being an honest broker that achieves the interests of the various parties related to the business of the facility with integrity and objectivity;
- Discipline in the work of monitoring and following up on the work of the facility by the internal authorities (such as the board of directors, the audit committee, internal audit, supervisors, heads of sectors and managers) and external bodies (such as the Central Auditing Organization, auditors, the holding company, the relevant ministries ... etc.);
- Discipline in performance, such as the administration carrying out its basic responsibilities of setting strategies and plans, managing risks, carrying out supervision and follow-up work, effective supervision, and the employees committing to their work diligently and diligently, and setting up effective systems for reward and punishment, preventing extravagance and waste, and paying attention to the basic issues related to improvement, research and development, training, advertising, publicity and product/service improvement;
- Discipline in approaching the customer to gain his satisfaction and loyalty.

Corporate governance is defined as "the procedures used by representatives of stakeholders in the organization (eg shareholders, etc.) to provide oversight of risks and control risks undertaken by management."

As the 1992 Cadbury Report describes corporate governance as follows: "Corporate governance is the system by which companies are managed and monitored". (Rogier & Schelleman, 2012, p. 111)

The Center for International Private Projects defined it as: "The framework in which institutions exercise their existence. Governance focuses on the relationship between employees, members of the board of directors, shareholders, stakeholders, and government regulators, and how all these parties interact in overseeing the company's operations". (G. CHAREAUX, 2019, p. 96)

The Organization for Economic Cooperation and Development (OCDE) defined the concept of corporate governance in 1998 as: "The system that directs and controls the work of the institution, as it describes and distributes rights and duties among the various parties in the institutions such as the board of directors, shareholders and stakeholders, and sets the rules and procedures necessary for taking decisions related to the affairs of the institution. It also sets the objectives and strategies necessary to achieve them and the basis for follow-up to evaluate and monitor performance.

He also defined it as "that framework that should ensure the strategic direction of the corporation, effective monitoring by the board of directors, as well as the accountability of the board of directors to the corporation and shareholders". (Brink, 2021, p. 212)

- It is the system through which the organization's work is directed and monitored at the highest level in order to achieve its objectives and meet the necessary standards, responsibility, integrity and transparency.
- It is an integrated system of financial and non-financial control through which the company is managed and controlled.
- It is a set of ways in which investors can be assured of achieving reasonable profitability for their investments.
- It is a set of rules and incentives that guide corporate management to maximize the company's profitability and long-term value for the benefit of shareholders.
- It is a set of laws, rules and standards that define the relationship between the company's management on the one hand and the shareholders and stakeholders on the other hand.
- The rules, regulations, and procedures that achieve the best protection and balance between the interests of the company's managers and shareholders, and the other

stakeholders associated with it, and which apply in particular to joint stock companies listed on the stock exchange, as well as financial institutions that take the form of joint stock companies. (Brink, 2021, p. 216)

Through the previous definitions, it can be said that governance is a set of principles and rules, working to achieve a balance of interests between all parties dealing with the company, including management, shareholders and other parties related to the company.

From the foregoing, it is clear that corporate governance includes the following elements:

- A set of regulations, laws and rules for monitoring the performance of institutions;
- Regulates relations between the Board of Directors, managers, shareholders and other stakeholders;
- Emphasizing those institutions should be managed for the benefit of stakeholders;
- A set of rules by which the institution is managed and controlled according to a specific structure, which includes the distribution of rights and duties among the participants in the management of the institution, such as the board of directors, executive managers and shareholders.

III. Characteristics and dimensions of corporate governance

III.1. Corporate Governance Characteristics

The term corporate governance refers to having the following characteristics: (Sibel & Ertuna, 2017, p. 125)

- ✓ Discipline: Following appropriate and correct ethical behavior.
- ✓ Transparency: presenting a true picture of what is happening.
- ✓ Independence: There are no unnecessary influences and pressures to act.
- ✓ Accountability: The ability to evaluate and evaluate the work of the board of directors and executive management.
- ✓ Responsibility: There is a responsibility to all stakeholders in the company.
- ✓ Fair Faimess: The rights of the various stakeholder groups in the company must be respected.
- ✓ Social Responsibility: That is, looking at the company as a good citizen.

The following figure shows these characteristics:

Figure No. 01: Corporate Governance Characteristics

Source: (Sibel & Ertuna, 2017, p. 165)

Corporate governance rests on three pillars: (Sibel & Ertuna, 2017, p. 133)

Ethical behavior: that is, ensuring behavioral commitment through adherence to ethics and rules of rational professional conduct, balance in achieving the interests of all parties associated with the company, and transparency when presenting financial information.

- ✓ Activating the roles of stakeholders: such as public supervisory bodies "the Capital Market Authority, the Ministry of Economy, the stock market, the central bank" and the direct parties for supervision and control: "shareholders, the board of directors, the audit committee, internal auditors, external auditors" and other parties associated with the company "suppliers" customers, consumers, depositors, lenders.
- ✓ Risk management: through the establishment of a system for risk management, disclosure and communication of risks to users and stakeholders.

III.2. dimensions of corporate governance

Through the above definitions of governance, we conclude that governance is a multi-dimensional concept, and these dimensions can be expressed as follows: (Tricker, 2019, p. 90)

a. The supervisory dimension

Relates to strengthening and activating the supervisory role of the Board of Directors over the performance of the executive management, and stakeholders, including the minority of shareholders.

B. Regulatory dimension

It is related to activating and strengthening control, whether at the internal or external level of the company. At the internal level, strengthening and activating control deals with activating internal control systems and risk management systems. On the external level, it deals with laws, regulations, and rules of registration in the stock exchange, and providing opportunities for campaigners. The share and parties with an interest in oversight, as well as expanding the scope of the external auditor's responsibilities and strengthening his independence.

c. Ethical dimension

It is related to creating and improving the control environment, including ethical rules, integrity, honesty, and spreading the culture of government at the level of corporate management and the workers' environment in particular.

d. Communication and balance

It relates to designing and regulating the relations between the company represented in the board of directors and the executive management on the one hand, and external parties, whether interested parties or supervisory, supervisory or regulatory authorities on the other hand, where sincerity must govern the closing between the company's management and share holders, while the To govern the fairness of the company's relationship with the workforce, and national consensus should govern the company's relationship with NGOs, justice should govern the company's relationship with NGOs, and the commitment to the company's relationship with governmental bodies and organizations should govern.

e. strategic dimension

It relates to formulating business strategies and encouraging strategic thinking and looking to the future based on a careful study and sufficient information about its past and present performance, as well as studying the external environment factors and estimating their various effects based on sufficient information about the internal environment factors and the extent to which influence is exchanged. between them.

f. accountability

It relates to disclosing the company's activities and performance and presenting it to shareholders and others who are legally entitled to hold the company accountable.

g. Disclosure and transparency

It is related to disclosure and transparency, not only about the information necessary to rationalize stakeholders at the company level, but the concept expands to include disclosure within public reports of indicators of compliance with the principles of governance in accordance with the recommendations of the New York Stock Exchange, which are: (Tricker, 2019, p. 112)

- ✓ Interaction between the board, management, internal audit and the external auditor;
- ✓ The efficiency and effectiveness of risk management, and the adequacy of the necessary control methods and procedures;
- ✓ Achieving the interests of all stakeholders and achieving a balance between them;
- ✓ independence of the vast majority of the members of the Board of Directors;
- ✓ The experience of the members of the board of directors with the nature of the company's activity and functional topics;
- ✓ Board periodicity and information flow continuity;
- ✓ The integrity of the distribution of tasks between the chairman of the board of directors and the CEO of the company;
- ✓ Adequacy of transparent and timely disclosure of information;
- ✓ forming non-executive committees from independent directors;
- ✓ Having an effective internal audit function;
- ✓ The actual internal control of the company. (Tricker, 2019, p. 136)

VI. The importance and objectives of corporate governance

Through this axis, we will try to highlight the importance and objectives of corporate governance through the following: (H. Kent & Anderson, 2010, p. 210)

VI.1. The importance of corporate governance

Governance is one of the international standards adopted for judging the national economy, and in another aspect it contributes to ensuring the rights of shareholders in the institution, and is one of the most important mechanisms and standards that contribute to measuring the regularity and efficiency of emerging and developed capital markets.

Corporate governance is based mainly on defining the relationship between investors, boards of directors, managers, shareholders and others. It aims to maximize the value of shareholders' investments in the long term, by improving the performance of institutions and rationalizing decision-making in them. This includes preparing incentives and procedures that serve the interests of shareholders, and at the same time respect the interests of others in the institution.

The importance of corporate governance increases in order to increase confidence in the information contained in the published financial

statements for its users, especially shareholders and dealers in the stock market, in order to preserve their rights.

In recent times, the importance of corporate governance has grown to achieve both economic development and the social well-being of societies. Following the sound rules of corporate governance achieves the following:

- ✓ Maximizing the market value of shares, and strengthening the competitiveness of companies in the global financial markets, especially in light of the development of new financial instruments and mechanisms, and the formation of mergers, acquisitions or sale to a major investor;
- ✓ Ensuring the efficiency of the application of privatization programs and directing the proceeds from them to their optimal use, in order to prevent any corruption cases that are related to this;
- ✓ Providing local or international sources of financing for companies, whether through the banking system or money markets, especially in light of the increasing speed of capital flows;
- ✓ Avoid slipping into accounting and financial problems, achieve support and stability of the activity of companies operating in the economy, avoid collapses in banking systems or local and global financial markets, and help achieve development and economic stability;
- ✓ Reducing risks, improving performance and opportunities for market development, increasing the competitiveness of goods and services, developing management and increasing transparency. It also contributes to increasing the number of investors in the capital markets;
- ✓ Assisting countries trying to rein in rampant corruption within the public sector or in the process of privatizing the public sector;
- ✓ The application of the method of exercising the authority of management strengthens public confidence in the correctness of the privatization process and helps to ensure that the state achieves the best return on its investments, which in turn leads to more job opportunities and economic development;

- ✓ He managed to raise the economic efficiency of the company by laying the foundations for the relationship between the company's managers, the board of directors and the shareholders;
- ✓ It works on setting the organizational framework through which the company's goals and ways to achieve them can be determined by providing appropriate incentives for the members of the Board of Directors and the executive management to work towards achieving the company's goals that take into account the interests of shareholders;
- ✓ It leads to openness to global financial markets and attracts a broad base of investors (especially foreign investors) to finance expansion projects. If companies do not depend on foreign investments, they can increase the confidence of the local investor and thus increase capital at a lower cost;
- ✓ It helps to guarantee the rights of all shareholders, such as the right to vote, the right to participate in decisions regarding any material changes that may affect the company's performance in the future. (G. CHAREAUX, 2019, p. 195)

VI.2. Corporate Governance Objectives

Corporate governance seeks to achieve the following main objectives: (R. Keay, 2011, p. 114)

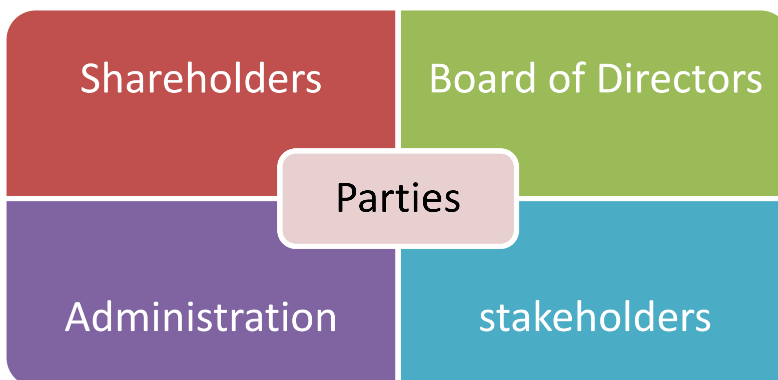
- ✓ Improving economic efficiency and increasing the rate of economic growth;
- ✓ Increasing investor confidence in the capital markets, which is reflected in reducing the cost of capital, as well as operating the market system effectively;
- ✓ Creating incentives and motives for the company's board of directors to pursue the achievement of goals that achieve the company's interest;
- ✓ Imposing effective control over the company;
- ✓ Enabling the company to enjoy a good competitive position in relation to its counterparts in the capital market, which leads to increasing the attraction of investors who can support the financial growth of the company;
- ✓ Strengthening integrity and efficiency in financial markets;
- ✓ separation of ownership and management;

- ✓ Finding the structure through which the company's goals are determined, the means to achieve those goals, and follow-up performance;
- ✓ Reviewing and amending the laws governing the performance of companies so that the responsibility for control is transferred to both parties, namely the company's board of directors and the shareholders represented by the company's general assembly;
- ✓ Not to confuse the duties and responsibilities of executive directors and members of the board of directors;
- ✓ Evaluate the performance of senior management, enhance accountability and raise the degree of confidence;
- ✓ Enable companies to obtain financing from a larger number of local and foreign investors.

V. Parties concerned with applying the concept of corporate governance

It should be noted that there are four main parties that are affected and affect the proper application of the rules and foundations of corporate governance, and they determine to a large extent the extent of success or failure in implementing these rules. and the following figure shows these parties:

Figure No. (02): Parties concerned with implementing the concept of corporate governance



Source: (Ormazabal, 2018, p. 41)

Therefore, we will try to address these parties by explaining as follows (Ormazabal, 2018, p. 44)

- Shareholders: They are those who provide the capital to the company through their ownership of shares in exchange for obtaining appropriate profits for their investments, and also maximizing the value of the company in the long term, and they have the right to choose the appropriate board members to protect their rights.
- Board of Directors: They represent the shareholders as well as other parties such as stakeholders. The Board of Directors selects the executive managers who are entrusted with the authority of the day-to-day management of the company's business, in addition to monitoring their performance. It also sets the company's general policies and how to preserve shareholders' rights.
- Management: It is responsible for the actual management of the company and submitting performance reports to the Board of Directors. The company's management is responsible for maximizing the company's profits and increasing its value, in addition to its responsibility towards disclosure and transparency in the information it publishes to shareholders.
- Stakeholders: They are a group of parties that have interests within the company such as creditors, suppliers, workers and employees, and it must be noted that these parties have interests that may be conflicting and different at times. Employees on the company's ability to continue.

IV. The basic mechanisms and determinants of applying the concept of corporate governance

Corporate governance mechanisms are generally divided into internal and external mechanisms. The internal mechanisms include the supervisory and oversight role played by the Board of Directors and its affiliated committees, especially the Audit Committee, and the Internal Audit. As for the external mechanisms, they include a number of mechanisms, among them, the legislation and laws that are issued, and the role of the external auditor. In this part, the focus is on the nature of the role of the Board of Directors.

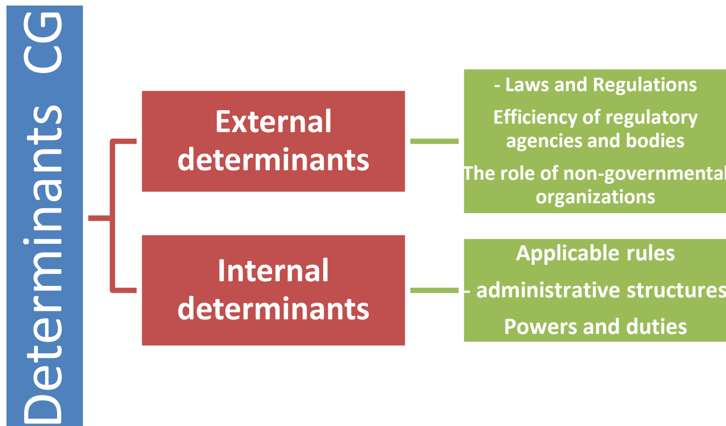
Although the Board delegates most of the functions of management and control of decisions to senior management, it maintains final control over them, and the effectiveness of the supervisory and oversight role of the Board of Directors depends on a set of determinants or characteristics, the most prominent of which are: (Mallin, 2019, p. 90)

- the composition and independence of the board of directors;

- Board size.

In order for companies and even countries to benefit from the advantages of applying the concept of corporate governance, a set of basic determinants and factors must be available that ensure the proper application of corporate governance principles. The following figure shows these determinants:

Figure No. (03): The basic determinants of applying the concept of corporate governance



Source: (Mallin, 2019, p. 93)

IV.1. external determinants

These determinants represent the environment or climate in which companies operate, which may differ from one country to another, and they are: (Thomsen & Conyon, 2012, p. 148)

- ✓ Laws and regulations regulating the work of the markets, such as corporate laws, capital market laws, and laws relating to bankruptcy, as well as laws regulating competition and working to prevent monopoly;
- ✓ The existence of a good financial system that ensures the provision of the necessary financing for projects in an appropriate manner that encourages companies to expand and international competition;
- ✓ The efficiency of regulatory bodies and bodies such as the stock market and stock market authorities, by tightening control over companies and verifying the accuracy and integrity of the data and information they publish, as well as setting the necessary penalties and

the actual application of them in the event of companies' non-compliance.

- ✓ The role of non-governmental institutions in ensuring that their members adhere to the behavioral, professional and ethical aspects that ensure the efficient functioning of markets. These non-governmental institutions are represented by the associations of accountants, auditors and bar associations, for example.

IV.2. internal determinants

It includes the rules and methods that are applied within companies, which include establishing sound administrative structures that explain how decisions are taken within companies, and the appropriate distribution of powers and duties among the parties concerned with applying the concept of corporate governance, such as the board of directors, management, shareholders and stakeholders, in a way that does not lead to conflict In the interests between these parties, but leads to the realization of the interests of investors in the long term.

We must note that these determinants, whether internal or external, are in turn affected by a set of other factors related to the culture of the state, the political and economic system, the level of education and awareness of individuals. Macroeconomic policies and the degree of competition in product and factor markets. The corporate governance framework also depends on this legal, regulatory and institutional environment as well as on ethical, societal and environmental factors. (Shveta, 2022, p. 316)

Conclusion

Finally, it can be said that corporate governance has received great attention in recent times, as a result of a number of administrative and financial failures suffered by many large companies in the United States and East Asian countries, for example, and it was found that the main reason that led to the occurrence of this administrative failure The financial is the lack of corporate governance, which enabled those in charge of the organization from within, whether they were the board of directors, managers or employees, to give preference to their personal interest, at the expense of the interests of shareholders, creditors and other stakeholders such as employees, suppliers and the general public. In addition,

globalization and the liberalization of global financial markets have opened new doors for investors to achieve great profits, and it has become imperative for them to search for institutions with sound structures that practice governance to manage the latter and allow them to participate in supervising them.

In conclusion, the application of any company to the concept, rules and principles of corporate governance achieves many advantages, including:

- ✓ Reducing the degree of risks related to financial and administrative scandals facing the company;
- ✓ Combating financial and administrative corruption in business companies;
- ✓ Increasing the degree of efficiency of the company's performance, which is reflected in profitability rates and the acceleration of development in society;
- ✓ Increasing transparency and accuracy in the financial statements, which results in increasing investors' confidence in them and relying on them in making economic decisions;
- ✓ The company's progress and the attraction of many local and foreign investments allow to increase growth rates, achieve economic development, increase employment and employment opportunities in society, and contribute to solving the problem of unemployment that most countries of the world suffer from.

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