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Effect of Corporate Governance Policies in Financial Performance of Corporations in Developing Economies

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Abstract

The present study look upon the topic related to the importance of corporate governance rules in the corporations to improve the financial performance in the developing countries. The study carefully incorporates the importance of corporate governance in the organizational settings, by analysing diffrent factors. Background justifies the relevance of the study how the developing economy started to understand the importance of corporate governance. Aim and objectives have been carefully identified and mentioned. The research methods regarding research design, research types have been mentioned, here secondary data collection methods are being taken into the study.

The study discussed the results in collective manners as possible to understand the impacts of corporate governance in the organizational settings. In this part themes have been taken into consideration to elaborately describe the related things and matters elaborately. The developing countries conditions in terms of corporate governance are being compared with developed countries also. In the present time the industries reading through some changes, hence the organizations need to follow the trends accordingly. Issues also are being identified to make certain strategies to mitigate it .In the discussion part the results are being discussed in proper way to understand the underneath meaning of study. Conclusion has been done accordingly to define the whole study bad the results.

Keywords

Corporate governance, developing countries, financial performance, organizations.

INTRODUCTION

Background

The Corporate Governance Policy refers to the set of rules and justifications that guide the Board of Directors of the corporation through this framework that encompassed the rules and justifications. The framework involves Company's corporate structure, policies and culture that assist the board of directors to deal with stakeholders in collective manners. There are few crisis characteristics of the corporate governance possessed they are transparency regarding the present and future planning, detailed description of rights of stakeholders, structured board practices and control over corporate environment [1]. Hence it can be said that implementation of corporate governance standards enhance the financial performance of a company, beside it also improves the internal efficiency.

However, poor practices if the characteristic can hamper the performance of the company to large extent. It can be said that the big companies especially the MNCs have taken several mechanisms to improve and establish string corporate governance within the organizations, hence they can expand and restrain their business within the higher scale [2]. Within the developing countries the corporate governance reforms are experiencing a new dimension in the few last decade, the companies and the respective government understand the importance of corporate governance too improve the productivity. There are some issues still there in the developing economy; the strategic planning can mitigate the condition into betterment.

Aim of the study

The aim and objectives of study help the researchers to conduct the research on line, hence they can screen out the reliable outcomes. In this present study, ***the main aim is to evaluate the importance of corporate governance in the financial performance within the organizations in the developing economies around the world.*** The objectives of this present study

- To evaluate governance policies across the countries around the world especially in the developing economies.
- To evaluate the relation with corporate governance to the financial performance in organizations in the developing countries.
- To identify the issues and trends within the governance to determine the required strategies into the organizations

Relevance of the study

The developing countries economy is blooming with time, as the government is trying to limit the barriers and challenges from the shoulder of the business bodies. However in the past time even now, the corporations are mainly driven by the set of rules that cannot guide the organizations to follow certain standards of international corporations, hence they remain in the behind in several measures. In these matters the organizations need a framework that guides them to acquire the certain standards that retrieve the long term value in the market places. The Corporate governance policies assist the board of directors to regulate the financial measures to improve the performance, hence this study is going to help the future corporate management and researchers to the pint.

MATERIALS AND METHODS

Research design

Research design assists the researchers to conduct the research in a certain framework that provide best pathway to the research to find out the estimated results. There are two types of research design, exploratory research design and conclusive research design. The exploratory research design assists the researchers to explore the research findings, where conclusive design helps the researchers to find out the final outcomes of the study [3]. ***In the present study the conclusive research design have been chosen to conduct the search***. As the issues and trends in the corporations need timely measurements and solutions. The conclusive design helps the researchers to find out the feasible solution within time.

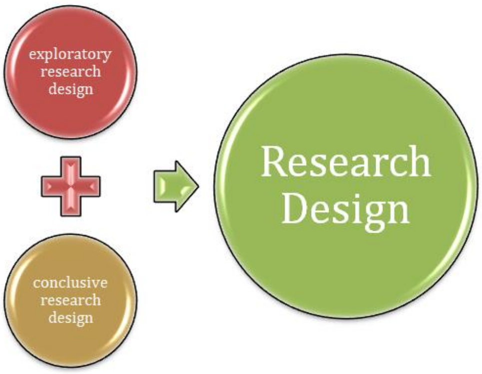

Figure 1. Types of research design
(Source: inspired by [3])

Research type

The preset research study take the qualitative information and data into the consideration, hence the research type is qualitative in nature. In the context it can be said that the research sturdy involve only no numerical information's in general, numerical data has been avoided [4]. The qualitative research study help he researchers to understand the underneath patterns and themes related to the study. Moreover, this type of study involves different types of observation, company websites government websites to understand the themes ad pattern. Hence biasness can be avoided, and quality of study can be maintained throughout the study.

Inclusion and exclusion criteria

Within the inclusion criterion. The present research study includes the authentic research journals that are published in the year 2019, and later to the period. Further the research journals area being taken that is published in English. On the context, the newspapers and government websites can be mentioned. Moreover the company websites are taken into considerations to evaluate the present topic in collective manners. The study also portray the exclusion criterion, here the study exclude the research journals that are published other than in English, and published before 2019. The study also avoids the blog reports, other journals that are not authentic at all.

Data collection and data analysis

Data collection method and data analysis assist the researchers to collect and analysis the information and data in certain way to determine and find out the estimated outcome of topic related to the study. There are two types of data primary data and secondary data, primary data refers to the data that read being collected through face to face conditions, while secondary data are being collected from the secondary sources such as journals, newspapers and others [5].The present study take secondary data into the considerations, while conducting the study. It helps the researchers to collect authentic data and information's as they are peer reviewed and utilized in prior research papers [6]. It also helps researchers to reduce the research costs. The study also conducts secondary data analysis.

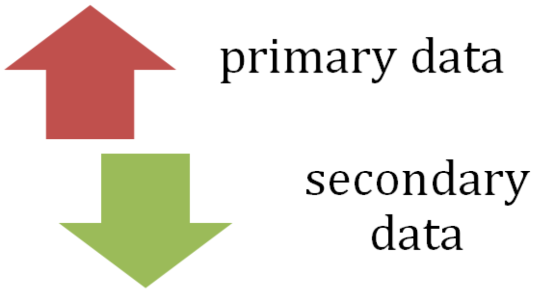

Figure 2. Types of data and information
Source: inspired by [6]

RESULTS

Evaluation of corporate governance policies

A policy refers to a document that establishes rules and guidelines for a corporation. The policies are generally structured by management and approved by the governing body of the corporation. The policies should be concise and clear as the team members of the board of directors and the employee can understand the importance of policies. In the UK the governments takes different measures to sustain their corporations that contribute to their economy. The aim of the corporate governance to encourage the high standard of propriety through the Single Source Regulation Office SSRO and promote the effective utilization of staffs and resources [7]. The government of UK ensures that cabinet office model code should entitle the board of members regarding the ethical practices of the code. The financial success of an organization is not only dependent on the quality management, innovations, productivity, the corporations need to compliance with corporate governance with the pace of developments. It can be seen and experienced that the corporations in the developed countries have had huge experiences and implications in their organizations over the years.

On going through corporate governance policies the corporations have accumulated the financial profits and sustain the productivity throughout the years. There are four important pillars of the corporate governance, they are accountability, responsibility, transparency, and fairness. Being accountable for the actions that the board of directors taking to implement into the business, it improves and able to attract the confidence from the regarding shareholders ad stakeholders of the organization. The management of the organization needs to be transparent regarding their management rule and implementation processes, beside they have be responsible to the people and environment while performing in the market industry [8]. The organizations need to be fair to the employee and other stakeholders while doing business in the market places. All these measures guide and help the organizations to follow certain set of rules and they can drive their business in collective way, resulting the positive impacts on financial profits.

Hence it can be also experienced that the developing economy still have to go further in these measures, they are struggling to maintain the good corporate governance due to certain barriers. However many developing economy including India, China, Bangladesh, countries from Africa are going through governance reforms, and they are getting the results along the way [9]. The economy of these countries getting better with time in many reports shows that the reforms in the financial and governance has the huge impacts on this type of changes.

Effects of corporate governance policies in financial performance in developing countries

Corporate governance reforms has significant importance in the developing countries as it aim to go forward with the accountability and transparency towards the growth of financial performance. It can be seen that the corporations of the developing countries have been struggling more than the developed countries, one of the major reason is the irresponsible behavior and attitude and intransparency of the companies. Beside the Governments of the developed countries were not much aware of at the financial measures, hence the while country had to suffer. In the context, the condition of financial crisis of India can be mentioned in the year 1991 [10]. The current government on that time has taken revolutioaery strategy to bring the private colonies and investments into the economy. The Indian companies need the capital and resources to expand and retain the growth, hence liberalization and privatisation only can recover the economy. On this matter, foreign investment into the Indian economy needs the governance reforms, and good governance in the capital market are regulated by the SEBI.

It can be said that there is national bodies that ensure the code of ethics that should be maintained in the organizations. Within the code of governance developed **by** ***" Confederation of Indian Industry (CII)"*** clause 49 has been adopted by SEBI in the year 1999. Here it can be mentioned that "***Confederation of Indian Industry (CII)***"is an independent organization that help the government. India has introduced it code of conducts regarding the improvements in terms of social, environmental, corporate disclosure [11]. ***" Ministry of Corporate Affairs",*** Government of India published ***"National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business***". The guidelines ensures that the authentic corporations *to file* ***"Business Responsibility Report (BRR)"*** to improve the transparency to the stakeholders. India is the country that list the expenditure mandatory in the CSR manners. Moreover this Indian model has been followed by many countries in the world, to strategic implementation of corporate governance policies.

A study that has been conducted in the year 2003 by the ***"World Economic Forum***" that shows China has possessed the 44th rank out of 49 countries that take part in the corporate governance norms. Lower level of norms forces the Chinese companies to change and scale up their governance system through infusing international standard corporate governance best characteristics. In between the years 1997-1999 the sain crisis happened, "***Taiwan Securities and Future Commission"*** started to infuse the best practices of corporate governance in corporations. The **"*Taiwan CG Best Practice Code (2002)"*** directed all, employees, supervisors and shareholders must follow certain guidelines to improve the corporate governance [12]. On this reaction the company Horn (2011) aimed on the transformation of company through implementing the best governance rules after the period. The corporate law combined to a systematic approach on the basis of mutual agreements and minimum requirements related to the government rules to adjust the governance of corporations so that they can meet the demands of capital markets.

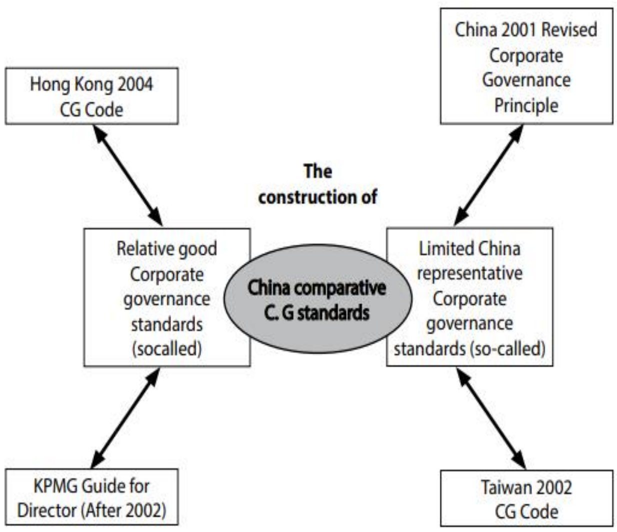

Figure 3. Corporate governance in china corporations
Source: [12]

Current trends and issues that in the finances

There are few new revolutionary trends that are emerging in the corporate governance such as diversity, equality and inclusion, climate change risks, Convergence of Sustainability Reporting Standards Management of Human Capital, Virtual Board Shareholder Meetings, and Return of Activism among the shareholders, improved Capital Markets Activity and others. On this context to can be said that the trends are emerging as the current consequences of present pandemic conditions, and other issues. The corporations as a part of society need to take the terms of climate changes while doing financial performance in the market places [13]. Only financial performance cannot provide the organizations long term value, they have to take different social and cultural responsibilities. The responsibilities help the organizations to distribute the resources in fairly manners, hence they can benefit maximum number of people within their corporations. The improvements of financial conditions of the employee can satisfy the employee, hence the satisfaction drive the company top the new direction of achievement.

There are certain issues that are coming into the corporate governance and the corporation facing huge financial looses. Weak implementation of governance due to lack of compliance dampen the financial flow into the business. The weak implementation of the governance is mainly due to the weak legal norms of these countries, especially in developing countries. Further it can be said that Countries with weak legal regulations have suffered higher depletion in stock market decline and exchange rates. Moreover it is evident case in the developing countries that the political structure is not highly aligned with the corporations goal, in many cases the bureaucratic interference, corruption hamper the business activities to the large extent [14]. Many international business enterprises find it difficult to perform in regional area due to huge corruption in the bureaucratic system, and harassments. Moreover in the countries as Chain, Africa, and Bangladesh the companies are facing to implement the standard corporate governance due to strictness, political conflicts, and religious issues. Further the people of these countries are still in hesitance to adopt the set of rules in their organizations, as the set of rules mainly comes from Europe, USA.

Strategies needed to be implemented to mitigate the constraints from the system

Strategies can be implemented to mitigate the constraints to large extent to improve the conditions. In the respect, the companies and also the government of the developing countries take few undertakings to implement the new approaches into the corporate governance. The corporations can trained the employee of the new norms and existing ones to make then familiar with the governance rules [15]. Moreover, the employee can retrieve necessary information’s and data regarding implementations through different news portals. The organizations need to motivate the employee group and workers to follow and learn new techniques so that they do not remain behind relative the employee of developed countries. Secondly the organizations need to collaborate with the legislative structure of the country to ensure inflow of the financial and human capital into the business. The barriers that are making unnecessary issues due to government strict rules can be limited to maintain the inflow of capital.

On this context, the respective government should take careful look on the international scale to identify the loopholes in their countries. They can help and assist their industries to follow up the certain rules that in long term are highly profitable and the assistances help the organizations to be sustainable into the market places. The government can also expand their tariffs and financial help such as loan, infrastructure help to introduce standard governance into the industries [16]. The collaboration of the government and corporations help the organizations to improve and enhance their productivity, resulting the improvements in the financial domain.

DISCUSSION

Corporate governance is certain framework that helps the organizations to align certain rules and regulation within their organizations, so that they do not violate the respective government in the country and the rights of the people and planet to the company. The main pillars of successful corporate governance can be many such as accountability, stakeholder’s management, fairness, transparency, assurance and leadership [17]. The corporate governance within the organizations makes simple internal policies of code of conduct that clearly design the duties of care, diligence and skill. The governance clearly describes the effective leadership that should practice ethical values such as responsibility, fairness, accountability and transparency. It can be clearly understood that the corporate governance improve the business operations within the corporations, hence this enhance the financial performance of the corporations. The developed countries have had the huge positive impacts through good governance rules, the developing countries still have to go far in these manners.

The developing countries as India, African countries, China in the context have reformed several regulatory laws to ease the business processes in the industries. In India the business regulations in terms of financial capital are being regulated by the SEBI, further many other bodies are there to control the flow of capital. This measure helps the country and organizations to align their investment into the ethical business practices [18]. The business originations are not merely business organizations that only aim to retrieve the fianncial profit, the people and environment also are being included in the developments. The down fall of environment and people lives directly impacts negatively on the financial performance of organizations. There are certain issues in implementing the new norms of governance structures, however the corporations along with the government and people can mitigate the issues in effective way as possible.

It can be seen that the implementation of governance rules in the agencies help the board of directors to align their service as per the goal of legislative government, and they can mitigate many issues that they are facing to struggle with. The legislative government helps the local and domestic companies to accrue the necessary resources from the different dimensions as per their needs, such as land, workforces, and supply chain. The companies that follow the governance relies in their settings can employ the best practices within the workplaces, hence able to improve the productivity. It can be seen that the countries as China, India have been experiences significant growth in financial measures in the last decades [19]. The GDP is growing of these two countries consistently; the corporate activities are being improvised with time also. The governance within the corporations helps the corporations to expand their business into new market places, as they promote their brand value to attract the new customer's base.

Corporate governance implies to the system that assist and guide the employee and members of the organization to practice few rules and the framework help the organization to sustain their operations. Corporate governance is clearly different from decisions that are taken to deliver daily operations in the organizations. The set of rules and regulations are followed by all the members of management and employees altogether. In this regard, current trends in the corporate governance have been evaluated to understand the implementation of new rules for the companies. In recent time the COVID-19 pandemic and social movements have had far-reaching impacts on business, people and society around the world [20]. The turning point has been arrived in many ways according to the experts. Corporate governance trends can vary from region to region; however, corporations worldwide are experiencing the feelings of their own role in society to improve the growth of the society. The expectations from the independent directors who oversee corporations have never seen this type of conditions in recent past.

According to statist reports the countries that have largest economis around the world, the UK has been affected more through this virus pandemic. By the third quarter of the year 2020 the economy of Japan and India contracted. O this respect China is the only country shows a positive GDP growth that is 4.9 percent during this period [21]. In the year 2021, the countries with largest economies begin to recover, even India shows over nine percent. Hence it can be said that the developing economies are starting to understand many things over the years that they did not understand before due to ignorant and lack of knowledge. Only financial performance does not provide the organizations of the developed countries the robust success, it is the corporate governance that sustains the operations over the decades and years. Corporate governance influences the management of organizations to take certain measures in terms of environment and people that directly satisfy the employee and customers group. The satisfaction among the customers ad employee group improves the business in long term in the market places.

CONCLUSION

Corporate governance rules and regulations assist the organizations to perform within the market places by abide by the government framework that is employed to maintain certain standard into the business operations. In the developing countries there are many issues regarding corpoarte governance, as to be not familiar with the set of rules, majority of the rules are designed by the foreign countries business management. The organizations of these countries feel the need to take serous notes on this regard to follow the standard to perform in long term in the market places. India have taken many revolutionery reforms in the last decade of 20th century, where China also took necessary reforms in their organizations seeing the lower scale performance in the international level.

The new trends in the corporate governance regarding people and planet help the organizations to sustain their business. These types of rules assist the management of business to understand their bigger responsibilities as per the need of time. The business organizations cannot survive alone without the collaboration with other bodies, hence they can take different initiatives to maintain the corporate rules in the organizations that eventually are able to perform better in terms of socially and financially.

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