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Impact of Corporate Governance Policies in Maintaining Internal and External Financial Policies of the Firms

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Abstract

Corporate governance is considered to have a significant role in influencing the growth aspect of an organization while also simultaneously reducing the risk aspect and improving the financial performance of the company for the stakeholders and attracting new potential investors. The present study has touched on some significant factors that relate to the making of internal and external policies of firms. It shows how through proper use and division of resources, sustainable innovation and practices can be conducted. A descriptive research design has been chosen to show the reasoning behind some of these factors and how they relate to the growth of a firm or organization. Secondary data has been collected for the study and it has been observed with the help of qualitative research. The results of the literature analysis have been observed with the help of different themes. Corporate governance and firm performance have been observed to be closely related to the present study. Therefore, it has an important contribution while determining the firm performance of the company. Issues pertaining to risk management and strategies with the help of which the corporate governance policies can be improved have also been analyzed.

Keywords

Corporate governance policy (CGP), corporate governance, firm performance, risk management.

INTRODUCTION

Background

The financial success and development of an organisation depend on efficiency, qualitative performance and the employees' creativity. In addition, corporate governance principles are essential as well in order to maintain external and internal financial policies inside the organisation. Implementation of such policies has a significant role in improving the financial performance and the internal efficiency of the organisation [1]. Moreover, an effective corporate governance policy (CGP) can reform the organisational structure which leads to the growth of the company. It not only influences the economic growth of a company but also lowers the risk of investing that attracts more investors towards the company. In accordance to the studies, efficiency, and productivity of the employees of an organisation are the key components of a CGP model which has a critical contribution on innovative business as well as to sustainable development [2]. It is crucial in order to determine the reliability of internal decision-making and to restructure the organisational policies accordingly. In order to understand the effectiveness of an organisation it is necessary to evaluate the corporate governance policies. It has been seen that corporate governance and accounting policies have a significant role in order to meet the changing demands and preferences of consumers [3].

Aim and objectives of the study

The main aim of the present research is to analyse the impact of corporate governance policies in order to maintain the internal and external financial policies of the organisation. However, the objectives of the research are:

- To understand the impact of corporate governance on the internal and external financial policies
- To address the risk management issues with corporate governance and its impact on financial policies
- To evaluate the corporate governance and firm valuation
- To recommend some strategies in order to improve corporate governance policies

Purpose of the study

The purpose of the study is to evaluate the impact of corporate governance policies in the organisation in order to redesign the organisational structure and to determine the effectiveness of the organisation. CGP has become the most critical approach as it helps organisations to grow economically in the competitive market. It is evident that when the companies expand, they become more able to use the local raw materials and man force which determines their social responsibility as well as employment opportunities [4]. Therefore, the study is for understanding the impact of corporate governance on the internal and external financial policies of an organisation that leads to gaining a competitive advantage.

MATERIALS AND METHODS

Research design

A research design is the framework of research methods which is important to conduct a study. It is the overall strategy and analytical approach that is chosen in order to ensure the research problems are evaluated properly. It is necessary to design a well-developed research plan as it provides the assurance that the chosen methods have successfully met the research objectives, the quality and authenticity of the collected data as well as to determine the right process of data analysis [5]. Moreover, it is the initial step of any research that the researcher adopts for defining the general plan of the study before collecting the data and it is helpful to ensure the validity of the research objectives. In order to perform the research, the descriptive research design is adopted as it is the most suitable approach for conducting the research study. Descriptive research design is a significant method of research methodology where the researcher has no control over the variables and results.

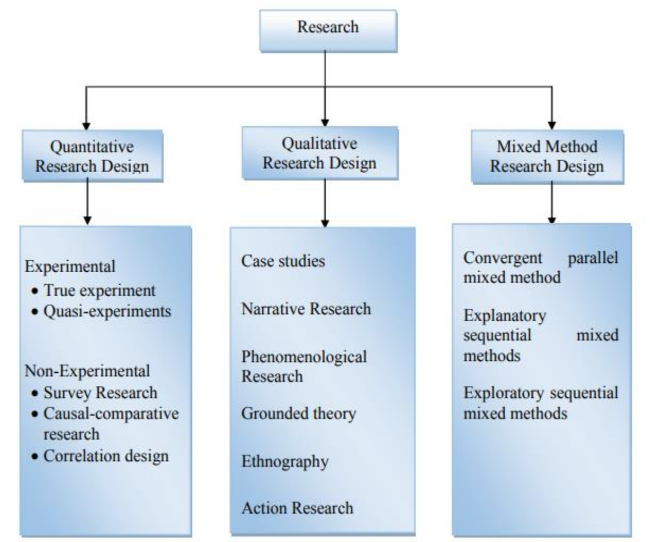

Figure 1: Framework of research design
(Source: [5])

Research type

In order to perform the present research, the "qualitative data collection" method is applied which is an important tool for collecting the data, necessary for analysing the research objectives. This method is mainly focused on gathering information from authentic sources only such as scientific journals; valid websites and that are not more than five years old.

Inclusion and exclusion criteria

The present research study is mainly based and focused on secondary qualitative data. In order to ensure the authenticity, originality and validity of the study, all the data are collected from authentic sources such as peer-reviewed scientific journals, research articles, government websites and valid historical data. In addition, the study is conducted with the references of scholarly articles, journals, books, and authentic websites that were published in and onwards 2018 invalid sources only. However, the sources which were issued before 2018, as well as not published in the English language and are from personal blogs or invalid websites are not taken into consideration for this study. Hence, this ensures the originality, validity and authenticity of the study which can be referenced in future studies.

Data collection and data analysis

Data collection is the process of collecting and evaluating authorised data from valid sources in order to answer the research questions and to meet the research objectives as well. In order to perform the study, both primary and secondary data are gathered from various sources. Primary data are more valid and authentic than secondary data as it includes surveys, experiments, interviews, and personal observation of the researcher. Secondary data is based on previous research which is less expensive, easily available, and time-consuming than the primary data. Moreover, it provides support to the research background and has a significant role in formulating the research questions and objectives [6]. The main sources of secondary data are peer-reviewed scientific journals, authentic news articles, annual reports of the organisations, valid websites, and historical documents which ensures the authenticity of the research.

RESULTS

Impact of corporate governance on internal and external financial policies

Corporate governance is a significant variable which influences the economic growth prospects of the company. In addition, it is a helpful approach in order to achieve higher market value that provides a competitive advantage for the company. Successful implementation of CGP in the organisation leads to the improvement of market performance as well. It is identified that effective CGP has the ability to make proper use and division of the resources as well as to get better access in developing efficient sustainable and innovative businesses along with improving employment opportunities. Moreover, it enhances the engagement of shareholders which leads to increased performance of the organisation. It has been seen that,internal audit is one of the chief components of the corporate governance system [7]. It is identified that internal audit has a significant advantage for potential investors. As this policy is involved in reducing the risk factors of investing, it leads to the attention of investors which helps in achieving a competitive advantage in the marketplace. Therefore, it is clear that corporate governance has a significant impact on the performance and productivity of the organisation.

During the pandemic, the global economy has been disturbed and that also affects the organisational performances and activity as well as the labour market, stock market and financial sectors. There is a negative impact of

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corporate governance during the pandemic that significantly lowers organisational performance [8]. In addition, there is a notable relationship between CGP and the performances of the employees. It is identified that the policymakers play an important role in CG and it has a significant impact on corporate performance. An effective CG structure is important in an organisation as it leads to effective organisational performance. There is no debate that the pandemic has a significant effect on the firm characteristics such as organisational performance and structure so it is necessary to adopt effective CG policies in order to gain a positive influence on the organisation's productivity. Many of the studies suggests that, digitalisation has a significant effect on the external audit of an organisation which is involved in the CGP of an organisation as well [9]. It is evident that digital transformation has a positive impact on organisational performance as it improves audit quality by analysing the data of the consumers.

Analysis of corporate governance and firm valuation

Corporate governance and firm performance are found to be closely related and it induces the governance perspective in order to create value inside the organisation. It can be seen that there is a significant influence of rapid board meetings on developing firm performances [10]. It is evident that due to frequent meetings with the employees, the management authority becomes able to solve the issues that arise inside the organisation. Moreover, effective engagement of employees in such meetings also induces productive growth which is helpful for the leaders to monitor the corporate issues that lead to establishing firm value. In addition, there is a significant link between "corporate social responsibility" and "corporate governance" that also triggers the value creation inside an organisation's culture. In accordance with the study the ability of the CEO in an organisation is responsible in order to influence the performance of the organisation [11].

Moreover, CSR is dependent on the corporate strategy which is a part of corporate governance that induces the growth and productivity of the company. It is necessary to develop a strong organisational culture that leads to continuous monitoring of CG policies [12]. This is essential to use the corporate strategy in a proper way in order to maximise the engagement of the shareholders. It is the belief of various corporate financial executives that capital management of an organisation is a significant determinant of developing the firm value. As discussed, there is an influence of working capital on the firm performances that determines the firm value including future sale expectations and financial management as well [13]. Moreover, WC is directly associated with financial growth of an organisation that influences the involvement of investors. It is evident that the effective involvement of investors has a positive impact on the organisational structure that aids to establish value inside a company. A well-managed CG policy has a remarkable role in improving corporate performance which leads to the financial growth of the company. In addition, it provides various benefits to the firm such as to improve the image and value of the company, to increase the confidence of shareholders and investors as well as minimise the risk of fraud activities. Therefore, it is clear that corporate governance and firm valuation are engaged in improving the economic performance of an organisation.

Risk management issues with corporate governance and its impact on financial policies

In order to develop a successful business, it is necessary to adapt some risk management policies to reduce the risks that are associated with corporate governance. Risk management is the core factor of the corporate governance as well as the part of strategic management. In addition, with the rapid changes in the business environment, the risk management techniques should be changed and modified accordingly to minimise its impact on the financial policies of the organisation [14]. Strategic management is a process that can provide a competitive advantage to the organisations. Moreover, the management policies are also engaged to help the organisation in order to set a way of thinking for a future perspective that leads to more benefit for the employees. The plan can be implemented in an organisation in a better way when the employees have strategic innovative thinking which induces to minimise the risks associated with corporate governance. There are several risks faced by an organisation including SC disruption, poor infrastructure of HR, supplier risks, operational risk and loss in marketing value. It is identified that these risks have a negative impact on the finance of a company as it induces potential loss and increases investment risk for the investors.

It is identified that risk management culture is significantly associated with corporate governance policy which can mitigate the issues that occur inside an organisation. It is a decision making process that has an impact in order to increase the productivity of the employees. According to the study the management authority and the employees have an equal contribution to the approach of risk management that includes the strategy of CG as wellof [15]. It is evident that financial conditions are also influenced by the risk management policies. The leaders of the organisation have a significant role in this approach. Furthermore, financial management is associated with sustainable development and practice that induces risk management and assessment. It is necessary to implement various financial models in order to enhance the productivity of the employees that improve the overall structure and growth of an organisation [16]. Risk management plan along with corporate governance promotes financial stability and effective approaches in order to meet the objectives of the organisation. In addition, it helps in adding organisation value to the company by reducing the overall risks and increasing the revenue of the firm. Therefore, corporate governance has a significant impact in order to improve the financial performance s of an organisation by minimising the risks.

Analysing the strategies to improve corporate governance policies

From the present study it can be seen that there is a need to improve corporate governance practices, the governance within a business plays an integral role in the development of principles and policies within the organization. Therefore, the policies that are implemented within the organization need to be done in accordance with the social responsibility that the organization possesses. Therefore, some of the strategies that can help improve this practice include increasing the diversity aspect of the organization. According to this theory, board gender diversity can be seen as an effective way of reducing agency and information asymmetry within the organization and contributing to increasing the effectiveness of the board and the firm performance [17]. Therefore, it can be observed that a proper balance is crucial for the success of this process. Diversity is a bottom-line issue for many corporate sectors, therefore with the help of diversity policies emphasis on corporate governance and its function can be reinstated.

As board members play a crucial role in designing corporate governance policies, the members of the committee should be appointed based on the skills and knowledge that they possess, it is important to establish a proper balance between board members that know the functionality of the organization and its employees. Having clarity in the policies and strategies implemented by the board is crucial for the success of the organization. Furthermore, monitoring the organizational performance is equally essential to ensure that legal compliances are maintained within the board. In order to develop policies that strengthen the financial position of an organization, having a clear idea about the performance drivers within the organization is vital. Corporate governance can increase reliability and financial reporting within the organization, with proper control of the internal and external aspects of the company, the policies can be streamlined [18]. Good corporate governance leads to improved and ethical business practices, which further helps financial visibility and attracts more investors.

Another important strategy in this aspect is building and maintaining an effective governance infrastructure, as poor internal processing and procedures can lead to bad communication between the board members and the employees, resulting in poor decision-making. Therefore, by enhancing the board meeting processes, meeting agendas can contribute to the making of effective corporate governance. An increase in the confidence levels of investors will not only improve the capital flow within the organization but also lead to better financial management [19]. Therefore, with the help of transparency and an effective capital structure, the corporate governance framework can contribute to mitigating the risk aspects faced by the organization.

DISCUSSION

Corporate governance plays a significant role in improving the performance of a firm or an organization, good corporate governance practices lead to improved company image, increase in confidence levels among the shareholders of the company and reduce the risk aspect from both internal and external threats. The present study has focused on how corporate governance policies influence the internal and external financial policies of a firm, as a result of which multiple themes have been observed to gain a better understanding of all of these contributing factors. Research shows that corporate governance is actively involved with the internal and external functions of an organization and with the help of incentives and monitoring tools, they further strengthen the CSR strategies that are practised within the organization [20]. Organizations that have an increased focus on internal activities strengthen and regulate the effectiveness of the corporate government. On the other hand, organizations that cater to the external needs of the co, company put more stress on the shareholder's needs and demands.

In the study, it can be seen how successfully the implementation of CGP within an organization improves market performance. Internal corporate governance is mostly involved with the board composition and ensuring that the stakeholder interests are met. On the other hand, as investors' goals are mainly concerned with the financial performance of the organization, the degree of monitorship of the corporate governance focuses on strengthening the CSR activities and the financial outcome of the business. The study has also shed light on the significant role that corporate governance plays in firm value, board composition, and ownership structure are all factors that contribute to how well an organization is going to perform. While an increase in the E-index can have a negative impact on a firm's performance [21]. Good corporate governance has the potential of improving the company's reputation, increase the confidence levels among shareholders, and also contribute to reducing the risk of fraudulent activities.

The study also shows how an effective corporate governance system contributes to effective risk management. Corporate governance plays the integral role of dividing the responsibility among the workforce and also determines the process through which risk management can be implemented at each of these levels. The research shows that the risk aspect is not always highlighted by the board and therefore more guidance can be provided on the shortcomings of risk management and ways through which it can be improved [22]. As an audit committee might not have the expertise to cope with all the risk aspects that an organization can face in the highly volatile business environment, corporate governance can emphasize this issue by focusing on financial and nonfinancial disclosures. Therefore, organizations that use corporate governance for risk management, can reduce monitoring costs while putting more emphasis on the internal and external policies of the organization and building them in accordance with the pertaining risk issues of the organization.

Finally, the study discussed some of the strategies that can be used to improve corporate governance levels within an organization. The importance of diversity has been stressed within the study as to how it can help organizations revisit their existing policies and reimagine them in the new context [23]. The research has also laid emphasis on the importance of clarity in business functions and how it relates to making better policies. The extent of the board's performance has been studied critically to help understand how they can contribute to making a governance infrastructure. The method through which the board members are chosen has also been observed to be an integral part of policy-making. The members that lead the organization needs to possess a good vision but also needs to have a good understanding of the employee and the current conditions of the business. The corporate governance policy provides the framework under which the board of directors of an organization performs, therefore they serve an important purpose in building the organizational structure, culture, and policies within the company.

CONCLUSION

The present study shows the financial development in the corporate sector that has been achieved with the help of corporate governance. The importance of properly functioning corporate governance, therefore, cannot be over-emphasized. Positive corporate governance can lead to ethical business practices that in return increase the financial viability of any organization. The research has therefore embarked on a journey to see how the policies implemented and designed by the corporate governance led to the internal and external financial policies within the organization. The study opens by providing a proper background for the development of the research study and establishing the baseline of the research. A descriptive style research design has been used to observe the phenomenon of corporate governance to elaborate and enhance the reader’s idea about the study. A qualitative data collection method has been adopted for conducting the research and the findings of the study have been assessed with the help of innovative themes. The study has effectively shown the impact of corporate governance on both the internal and external policies of the organization, the significance of corporate governance in relation to the firm performance, and the importance of strategies to improve the overall policies of the organization.

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