CORPORATE GOVERNANCE: A GENERAL REVIEW

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Abstract: *Corporate governance has an important position in the financial and business agenda and that is due to its benefits to corporations and communities. Its importance was highlighted during the global financial crisis in developed countries and others as well and it was addressed in business and management journals. Even though, corporate governance as a term is still confusing researchers and businessmen. We need as communities and corporations to understand what corporate governance does mean to be implemented in public and private sectors generating benefits to all parties. This article represents main concepts of corporate governance dealing with its definitions, objectives, and justifications for its existence in order to simplify corporate governance as a topic.*

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JEL Classification: M4, M2. M1

1. Corporate governance

There is no consensus in the literature on a uniform definition of the term "governance", as defined by the International Finance Corporation (IFC) as "a system of relationships between OECD and company management, the board of directors, the shareholders and other stakeholders."Another definition of governance is the manner in which the company is managed and the mechanism of dealing with all its stakeholders, starting with the company's clients, shareholders and employees (including executive management, and members of the Board of Directors). In general, governance means the existence of a system that governs relations between the parties and the members of the Board of Directors, management, executive and shareholders. That is important to achieving transparency, fairness, combating corruption and granting the right of accountability to the management of the company to protect shareholders and ensure that the company is working towards achieving its long term goals and strategies.

2. Emergence of governance

The need for governance has emerged in many developed and emerging economies over the past few decades, especially in the aftermath of economic collapses and financial crises experienced by a number of East Asian, Latin American and Russian countries in the 1990s. The global economy has recently witnessed a financial crisis, especially in the United States and Europe. The first of these crises was the one that hit South East Asia, including Malaysia, Korea, and Japan in 1997 and this crisis resulted in many giant companies that necessitated the establishment of rules of governance to control the work of all stakeholders in the company.

The importance of governance has increased as a result of the tendency of many countries of the world to shift to capitalist economic systems, which have relied heavily on private companies to achieve high and sustained rates of economic growth. The expansion of these projects has led to the separation of ownership from management, and these projects have begun to seek sources of funding that are less expensive than debt, and have gone to the financial markets. This was supported by the liberalization of financial markets, unprecedented cross-border capital transfers, the expansion of the corporate size and the separation of ownership from management into weak supervisory mechanisms for managers' actions, and many companies in financial crises. In the light of that corporations have compromised the external auditors with the Board of Directors; and the inaccuracy of the financial reports issued by the company. The result of the collapse of Enron, the regulators of 2002 in the United States of America and accordingly, Oxley rules were set to protect stakeholders' rights and monitor the activities of executives.

3. Justifications for governance

What will re-assure the investor (contributor) that the company in which he invested his savings is working according to the higher interest of the company? What return will this investor receive a return on his investments? What does confirm to him that the financial reports published by the company show the real financial situation of the company? What guarantees the lender that he will recover the value of his loan? What does ensure that the employee will continue to work and secure his or her livelihood for the near future? What guarantees the society that this company will continue to employ, produce services and goods, and generate value-added that supports and strengthens the economic situation in the country? How do all stakeholders get their rights in the company? Answering these questions for an investor (contributor) is governance. Without governance, all concerned parties in the company will bet on their investments as gambling in the casino.

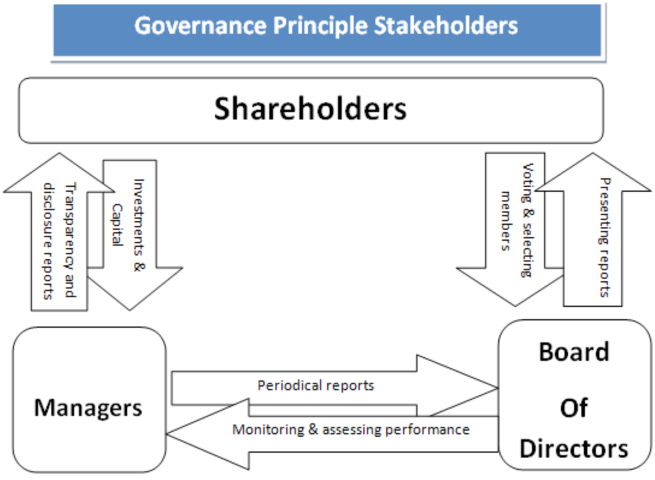
4. Governance philosophy

There are two advantages of contemporary companies, which necessitate the existence of governance controls: First advantage is separating between ownership and management of the company and that allows managers and executives to protect stakeholders in the light of the shareholders' interests. The second advantage: the influence of large shareholders at the expense of small shareholders is monitored. These two advantages have led to the development of a regulatory system that ensures that the interests of the company ensure that management is doing its best while protecting small shareholders from the domination of major shareholders.

Therefore, corporate governance has introduced a system that governs the work of all stakeholders in the company from shareholders, executive management, and board of directors. Through the so-called dilemma of the main party can explain this problem also and the agent. The main party in this equation is the owner of the company (shareholder) and the executive management (agent) based on the agency theory. In this bilateral equation,, the shareholder's interest at the expense of the principal party and other individuals interests are due to the general interest of the company assuring long term relationship among stakeholders and sustainability. Because of the apparent disparity of information in favor of the agent who runs the business on a daily basis, the chief party has to be appointed to the board of directors. Supervisory body to follow up the representative agent.

The interdependence between the above-mentioned stakeholders is closely related and important. The shareholders are the actual owners of the company and have rights and entitle them. The shareholders shall appoint the board of directors to be mentioned later and to supervise the performance of the executive management, which in turn appoints the executive management of the affairs of the company on their behalf. Besides that, the shareholders also elect the members of the board of directors, and the executive management. Therefore, shareholders are interested in the application of their rights on the one hand, and to reduce the level of corporate governance rules to ensure uncertainty regarding their investments in the company on the other hand.

These include government, society, banks, suppliers, employees, etc. In the end of all of these parties have an interest in the success of the company, providing it with continuity, and having rights to the company assigned to them.



Governance relationship between principle stakeholders
Sourse: created by author

5. Governance objectives

Governance aims to achieve a number of objectives, the most important ones are: Transparency, Accountability, the responsibility and Equality.

Transparency: is a modern and advanced concept of governance, which should be consciously informed by the conscious management because of its importance to the company and the parties concerned. Transparency means opening up and giving up the ambiguity of verification and sound vision. Confidentiality and deception is making everything possible.

Accountability: Shareholders are entitled to hold executive management accountable for their performance and this is a right guaranteed by law and corporate governance. Accountability also includes the responsibility of executive management to the Board of Directors and the Board's responsibility to shareholders.

Responsibility: Governance systems aim to raise the sense of responsibility in the other departments (Board of Directors and Executive Management) and each member of the board of directors acts with a high degree of professionalism. It also recognizes responsibility for the legal rights of shareholders and encourages cooperation between the Company and shareholders including profit, job creation, and economic sustainability.

Equality: means equality between small and large investors alike. It means equality between domestic and foreign investors. For example, a shareholder owns the same rights as the owner of a million shares, such as voting and participation in the General Assembly, accountability of the Board of Directors, a share of the distribution of profits, etc.

6. Governance benefits

- Governance helps the company to achieve sustainable growth and promote productivity.
- Governance decreases the cost of capital on the company as banks give lower interest rates to companies that apply corporate governance than non-corporate governance.
- Governance facilitates monitoring and supervision of the company's performance by identifying internal control frameworks, forming specialized committees, and applying transparency and disclosure.
- Governance contributes to attracting foreign investment and encourages investment in foreign markets. Foreign investors are attracted to the shares of the company that implement corporate governance as an investment in the company.
- Committed and transparent, and therefore the element of uncertainty is less compared to other companies. Governance serves to stabilize financial markets.

7. Governance controls

There is a consensus that the proper application of corporate governance depends on the availability and level of access to two sets of controls: external and internal controls.

a. State is the external controls refer to the overall climate of investment in the country, which includes, for example, laws governing economic activity (e.g. capital market laws, corporate law, competition regulation laws, monopolistic practices and bankruptcy). In the provision of financing for projects; the competitiveness of commodity markets and production elements, and the efficiency of regulatory bodies (CMA and the Stock Exchange) in the control of companies, in addition to private institutions such as law firms, auditing, credit rating and consulting and Financial and investment. The importance of external controls is that their presence ensures the implementation of laws and rules that ensure good corporate governance, which reduces the conflict between social return and shareholders' return.
b. Internal controls refer to the rules and rules that determine how decisions are taken and the distribution of powers within the company between the General committee, the Board of Directors, and the executive officers. On the one hand, their availability and application reduce the conflict between the interests of these three parties.

In addition, we can add the International Finance Corporation (IFC): Corporate Governance Standards for the principles of public shareholding governance; they are almost very close to the Organization for Economic Co-operation and Development (OECD). The Foundation is also implementing a number of initiatives to consolidate the rules of governance and train corporate governance in the best way to implement governance.

The above institutions are the main governance guides worldwide to implement best governance practices. However, for each local reference country, companies must comply with the governance controls developed by these authorities. For example, in the United Arab Emirates, the Securities and Commodities Authority (SCA) is the regulator of the governance of public shareholding companies listed in the UAE market. The Central Bank is the regulatory body for the application of banks and the rules of governance adopted by the Central Bank. In this booklet, we will explain the principles that have been developed by the OECD as the most common.

8. Governance principles

To the growing interest in the concept of governance, many institutions have been keen to study this concept and analysis; and to develop specific criteria for its application. The most prominent of these institutions are the Organization for Economic Co-operation and Development (OECD), the Basel Committee, and the Finance Corporation (representing the World Bank's BIS and the Bank for International Settlements)

Organization for Economic Co-operation and Development (OECD): these principles are considered as public shareholding companies in the world. It is worth mentioning that the Organization is in the process of amending the rules of governance as a result of the current financial crisis.

Bank of International Settlement - Basel Committee: The Committee of the Bank of Settlement: to regulate the work of banks around the world in order to reduce the level of risk controls for governance to control the work of banks in the pursuit of banks, and to protect them from economic shocks. The rules of governance prepared by the Basel Committee are the primary reference for all international banks.

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Conclusion

Governance regulates the relationship between the key stakeholders in the Company, the shareholders and the management of the Executive Company and the Board of Directors, so as to define and specifically govern the respective responsibilities and rights of each party. Governance aims to promote the principles of transparency, accountability, accountability, and equity by establishing a set of rules that companies must adhere to. The Organization for Economic Co-operation and Development has developed principles are a reference for all institutions and companies and the most important result of these is the development of an effective corporate governance framework through the development of laws and legislation on governance and definitely that is consistent with other laws in the country. In addition, that is to encourage the effectiveness of financial markets in the country; free movement of heads of mothers across borders, and the establishment of the necessary regulatory institutions in the state. The principles of governance also emphasize the enjoyment by shareholders of the rights guaranteed by law; equality between small and senior shareholders and citizens or foreigners. Governance rules emphasize the need to establish a board of directors according to its composition, an election mechanism that complies with the relevant laws of the state, and the governance sets certain responsibilities for the board of directors. That should not interfere with the responsibilities of executive management. The principles of corporate governance also emphasize the need to disclose the company's financial statements and operations accurately and regularly.

When applying the rules of governance in any company or organization, the company's environment, nature and work conditions need to be taken into account these rules designed to guide and guide companies in the right direction. However, that does not necessarily mean that the company must adhere to the provisions of these rules, but it is recommended and it is preferably adapted to fit the special situation of the company. Moreover, these rules are the minimum commitment to corporate governance and companies should take action. As we see fit, we should mention that public shareholding companies listed on the financial markets are obliged to apply the governance rules established by the Securities and Commodities Authority. We encourage private companies, especially family businesses, to be guided by the rules of governance set by the Organization for Economic Co-operation and Development (OECD).

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