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The Impact of Board Directors, Audit Committee and Ownership on Financial Performance and Firms Value

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Abstract The purpose of this study is to gather and analyze recent research publications on the relationship between governance (board, audit, and ownership) and financial and corporate value. A rigorous literature review of current international articles is used in this paper. The meta-analysis method was utilized to examine papers published in high-evaluation scientific publications indexed in Scopus. The tool (WordStat 8) was utilized to study articles and summarize descriptive statistics, correlation, and keyword cloud during the analysis process. According to the study, the board of directors works to protect investments from misappropriation by actively participating in the development of the company's strategy, giving appropriate incentives to management, and monitoring and evaluating its performance, thus maximizing the company's value. The audit committee can be used as a governance mechanism to improve financial information confidence and openness. Through their participation in the financial statement preparation process as well as improving the independence of both internal and external auditors, the audit committee can help prevent future financial disasters. The study discovered that the emphasis on a company's ownership is critical, and that focusing on the largest shareholder can considerably boost the company's long-term profitability. As a result, it is obvious that the current shifts in ownership focus will diminish performance, but that the negative effects will fade with time and may even have a beneficial impact on the organization's performance. The study will benefit a variety of stakeholders, including investors, stakeholders, company CEOs, board of directors, and other connected groups. Furthermore, guiding shareholders, investors, and stakeholders to make decisions based on reasonable and objective foundations follows a true assessment of the company's market value. This study offers both academics and professionals a written review of the study as well as an updated reference index to measure the relationship between governance and financial success from 2017 to 2020.

Keywords Board, Audit Committee, Ownership, Financial Performance, Firms Value

1. Introduction

In industrialized countries, many huge worldwide corporations have gone bankrupt, as has happened in the United States of America. The Sarbanes-Oxley Act [1] showed that one of the main reasons of the Enron and WorldCom scandals and financial shocks was collusion between these businesses' departments and external auditing firms led by Arthur Anderson, an international audit firm. If the governance processes had been properly applied, this would not have happened. Since then, the notion of governance has emerged as one of the most important current concepts that has grown in importance in both the public and commercial sectors [2]. With the surge in economic and technological changes in recent decades, this notion has become increasingly important in managing organizations, preserving shareholder interests, and attaining the principle of accountability when mistakes occur [3].

Refinitiv is an American-British global provider of financial market data and infrastructure. The company was founded in 2018. The company has an annual turnover of $6 billion with more than 40,000 client companies in 190 countries. The United States, the United Kingdom, Australia, and Japan have the highest number of corporations with good governance processes. Royal Dutch Shell (Netherlands), NK Rosneft (Russia), and Johnson Matthey (United Kingdom) are the top three firms with good governance. Mineral Resources, Banking and Investment Services, Energy–Fossil Fuels, and Food & Beverage are the business sectors with the most corporations rating well on governance procedures [4, 5].

Accounting information systems that offer sufficient and appropriate information to rationalize the choice between investment alternatives based on investors' risk-taking behavior. Based on the principle of disclosure of information provided by published financial reports and lists, whether this information is about tangible or intangible assets [6], have become increasingly important.

Following the advent of large-scale intercontinental (multinational) corporations, local businesses were forced to improve their performance in order to increase their market worth. Because the stockholders care about the company's market value. This necessitates departments improving the company's internal conditions. These comprise the company's tangible and intangible "intellectual" assets, as well as support for governance procedures implementation. This is expected to help the company operate better and be more competitive [7].

As a result, businesses are seeking for the best methods to invest, particularly given the challenge of determining predicted future returns and forecasting. It has a limited useful life and is difficult to quantify or assess [8].

As a result, this research aimed to determine the extent to which governance mechanisms, such as the board of directors, internal and external audit, and review committees, are used, as well as the influence of these mechanisms on financial performance and investment [9].

Corporate activities have a direct impact on investment [10]. This is accomplished by highlighting the directors' investment decisions as a result of the implementation of corporate governance mechanisms that work to address control system deficiencies, thereby assisting management in ensuring the efficiency of the company's performance and determining its strategies [11].

Based on the foregoing, the paper attempts to explain the relevance of implementing corporate governance procedures. Clarifying the impact on the company's financial performance, and hence the study problem can be formulated in the following main question, what is the effect of applying governance mechanisms the company’s financial performance and firms value? The main question is divided into the following sub-questions:

Q1: What is the effect of applying the board of directors as one of the governance mechanisms on the company’s financial performance and firms value?

Q2: What is the effect of applying audit committees as one of the governance mechanisms on the companies’ financial performance and firms value?

Q3: What is the effect of applying Ownership as one of the governance mechanisms on the companies’ financial performance and firms value?

2. Background Theoretical

Corporate governance is regarded as one of the ideas that receives the greatest attention from corporate executives. Particularly recently in most nations throughout the world, it is necessary to seek ways to improve company performance in terms of separating ownership from management, ownership structures, and management relationships with shareholders and stakeholders [12].

Many academics' definitions of corporate governance have differed according to the aim pursued by the definition giver, as there is no single definition of the notion of corporate governance agreed upon by economists, administrators, financial analysts, and accountants, as the definitions range from a narrow notion at one end of the governance spectrum to a broad and inclusive concept for all stakeholders [13].

Where governance is viewed as an economic concept: as a mechanism that assists a company in obtaining financing and ensuring the long-term maximization of the company's value, or as a legal concept: as it expresses the contractual relationship between stakeholders and society on the one hand, and managers on the other, and defines each of their responsibilities. From a social and moral standpoint, governance in this sense focuses on social responsibility in preserving stakeholders' rights, particularly minority rights, which aids in community development and environmental protection [14, 15, 16].

The definition of the Organization for Economic Cooperation and Development may be one of the most important definitions supplied by multinational companies in this industry (OECD), where governance is described as "the structure that guides and manages the company's activity by allocating rights and responsibilities among various parties such as the board of directors, financiers, stakeholders and beneficiaries.", as well as the procedures for making decisions in the company's affairs, setting the regulations, creating the objectives, strategies needed to achieve them, and the foundation for performance evaluation.” [17, 18, 19].

As a result, corporate governance can be defined as "a set of procedures, laws, and rules that govern the relationship between corporate management and stakeholders with the goal of protecting the interests of partners and shareholders by imposing oversight and controlling the company to improve its performance and ensure its continuity."

The world began to look at a new concept of corporate governance after the economic financial crises and financial scandals that happened in the United States of America and East Asian countries [20, 21]. It caused developed countries to look for more ways to monitor managers' performance and the workings of economic companies in order to preserve the interests of all parties and stakeholders. And it is because of this that the topic of governance, as well as the relevance of corporate governance, has become a source of concern for both developed and developing countries [22, 23].

Agrawal & Ashwini [24] highlighted the importance of governance for well-managed companies with better performance, stating that companies that implement governance are expected to lower their cost of capital, attracting a broader range of investors, with the majority of them looking for long-term investments. Companies that apply corporate governance decrease their exposure to numerous risks, and if they operate responsibly, they can develop fruitful, long-term relationships with all stakeholders, including creditors, employees, customers, and suppliers [25, 26].

Corporate governance is implemented in order to attract investors [27]. Investors recognize that well-managed companies will provide a higher return, which stimulates them to invest [28]. They also understand the importance of safeguarding their investments against loss due to greed, ignorance, managers' carelessness, or their preference for people with whom they have a relationship. Investors' rights, particularly those of minority shareholders, are protected through governance, which includes the ability to express comments on the company's management as well as the right to know everything about their investments [29, 30].

Companies must adhere to their commitments to their employees, stakeholders, and the communities in which they operate as part of good governance. Governance also ensures that banking crises are avoided and that broader and more liquid money markets grow. Societies in which enterprises are operated properly and with respect, on the other hand, attract a higher share of foreign investment. Increased productivity, creativity, and innovation as a result of fair and free competition can lead to new sectors of economic growth [31, 32, 33].

3. Methodology

The meta-analysis method was employed in this study. A meta-analysis literature review entails extracting and analyzing findings from a body of literature. According to Polit and Beck [34], meta-analysis approaches aid in establishing conclusions and revealing characteristics and correlations between data. It's a non-statistical process for evaluating and analyzing study results with the goal of expanding on earlier ideas and interpretations. This study is based on articles published in high-quality scientific journals that have been indexed by https://www.scopus.com/. The following keywords were used to find relevant research by looking for their existence in the title or abstract of publications at https://scholar.google.com/ and journals with a specialty in the area of literature review for this study at https://www.scimagojr.com/.

The scientific journals were chosen between 2017 to 2020 for review. The evaluation procedure, according to Cronin [35], consists of five distinct processes, the first of which was the collection of 400 articles using the keywords listed above. 281 articles were chosen in the second step of the Elimination of duplication in literature, and 113 articles were chosen in the third step of Check Journal name in SCOPUS. In this literature study, 51 articles were chosen in the fourth step of checking title and abstract, and 28 articles were approved in the final step of full-text analysis. Articles on the three variables, namely the function of higher education in entrepreneurship, the role of higher education in local economic development, and the role of entrepreneurship in local economic growth, were carefully chosen for this study. Figure 1 depicts a summary of the data collecting process, with steps 1–5 detailed.

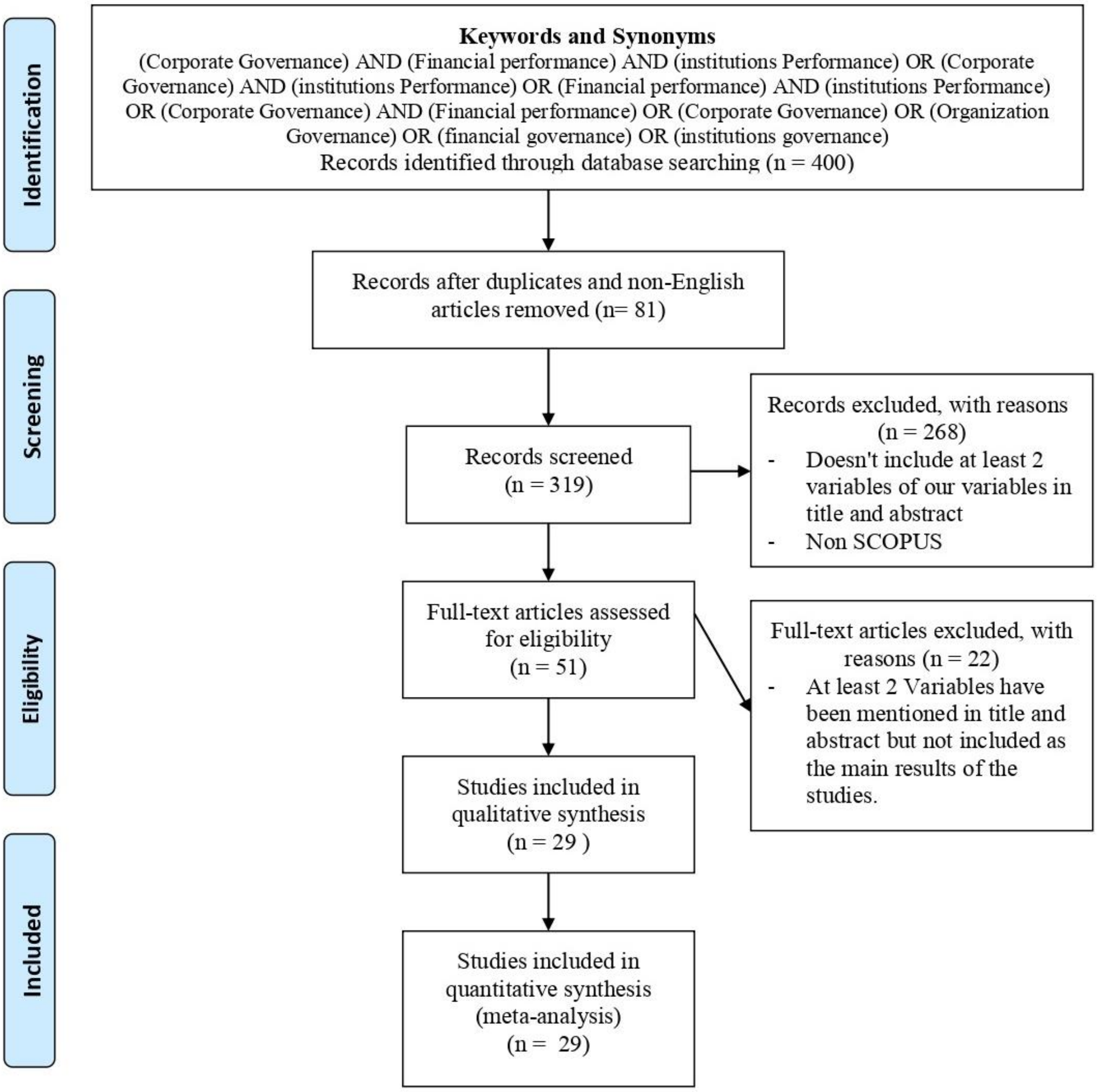

Figure 1. PRISMA flow diagram of search strategy and study selection

Table 1. List of journals

No.	Journal name	No. articles
1	Corporate Governance: An International Review	4
2	Research in International Business and Finance	3
3	International Journal of Islamic and Middle Eastern Finance and Management	2
4	Sustainability	2
5	Journal of Business Research	2
6	Corporate Governance: The International Journal of Business in Society	1
7	Research in International Business and Finance	1
8	Asian Economic and Financial Review	1
9	International Journal of Finance & Economics	1
10	Business Strategy and the Environment	1
11	African Journal of Hospitality, Tourism and Leisure	1
12	Journal of Family Business Management	1
13	Eurasian Economic Review	1
14	European Journal of Management and Business Economics	1
15	African Journal of Economic and Management Studies	1
16	Applied Economics Letters	1
17	Global Business Review	1
18	Journal of Banking & Finance	1
19	Polish Journal of Management Studies	1
20	Journal of Cleaner Production	1
21	Australasian Accounting, Business and Finance Journal	1
Total		**29**

In this study, the journals in table 1 were chosen. This literature review is a statistical analysis of available scientific references on the relationship between governance and financial performance, as well as its impact on the institution's performance. The literature review provides a summary of science progress on this area and allows the reader to learn about related hypotheses, methodologies, and research gaps.

Through the analysis process, (Wordstat 8) was used to investigate every journal and summarize the descriptive statistics, correlation, and keywords cloud. The focus of analysis was on the results of the articles.

Figure 2 shows the distribution of articles over the years of publication. We can notice from the figure the fluctuation of focused research on Governance and Financial performance between high and low. This means that there is no clear plan by higher education institutions and other institutions specialized in Governance that are interested in linking universities with economic development and directing research on this topic.

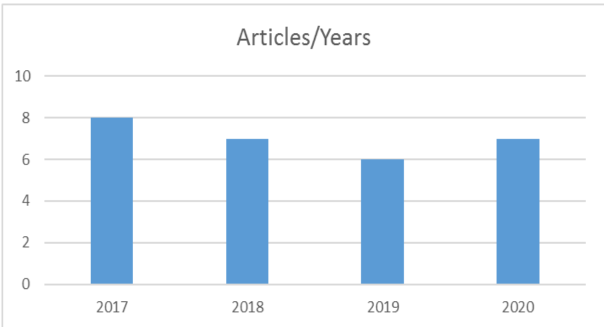

Figure 2. Distribution of Articles by Year of Publication

Figure 3. Cloud distribution of keywords

Final step in statistical analysis is the keyword cloud of the articles. Figure 3 shows the main words that were the most repeated and used to describe the relationship among variables. As we notice in the fig. 4, board was the most frequent word and the following level was forms, size, ownership, and financial. In addition, the figure also some related words that have been used to describe this relationship.

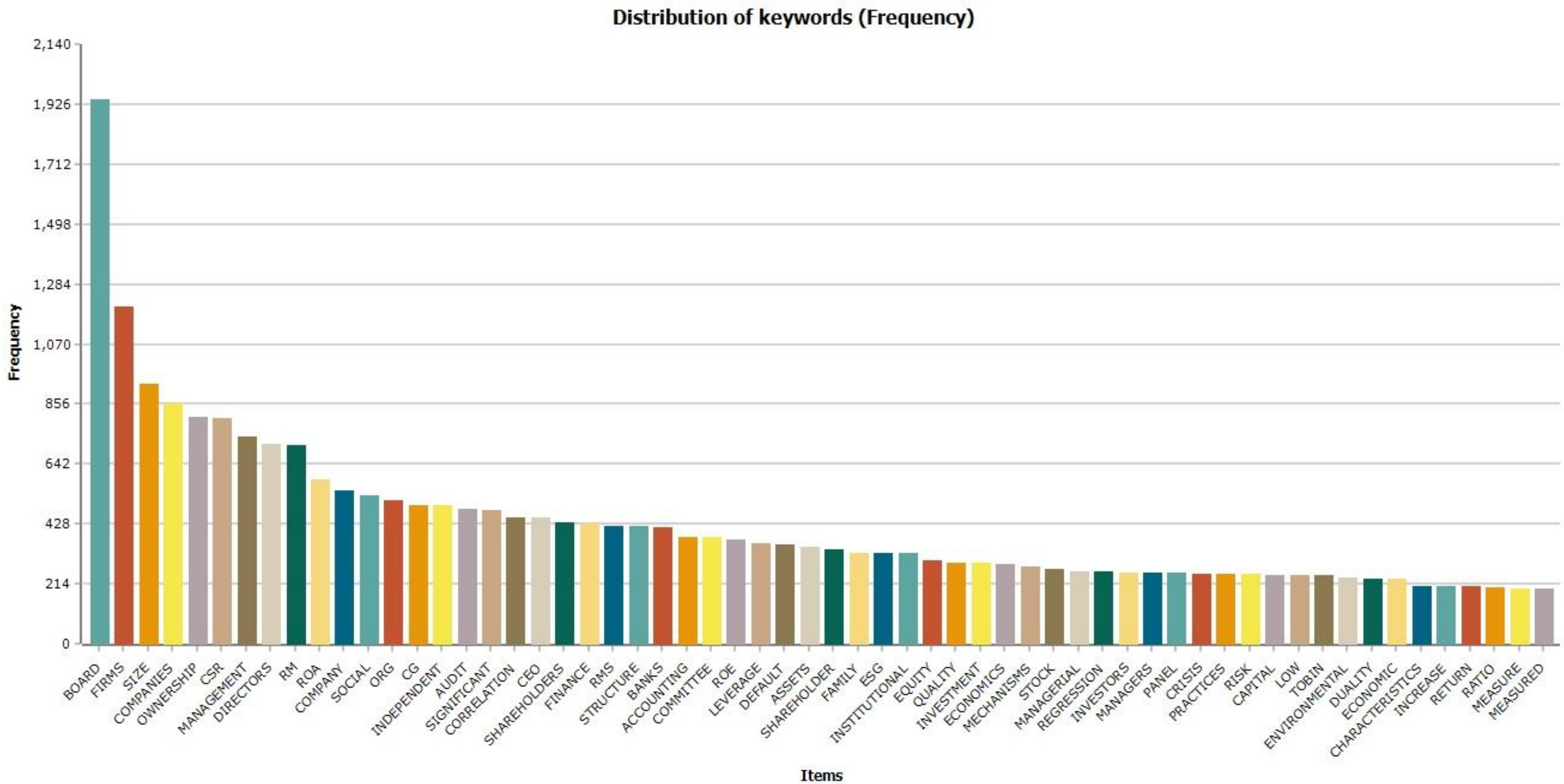

Figure 4. Distribution of keywords (frequency)

Table 2. Summary of related literature review

No.	Reference	Sampling	Countries	Period
1	[36]	53 non-financial companies	Indian and GCC countries	2009–2016
2	[37]	40 Jordanian financial institutions	Jordan	2013–2017
3	[38]	252 firms	United Kingdom	2014
4	[39]	3400 firms	Shanghai	2009 – 2018
5	[40]	2,165 companies	Companies from emerging and developed countries	2007–2014
6	[41]	3,389 firms from 31 countries	Global	2002–2011
7	[42]	the firms in the Compustat database as default firms	United States	2000–2015
8	[43]	30 Indian hotel companies	Indian	2013–2016
9	[44]	127 companies, for a total of 1270 observations.	Mena countries	2007–2016
10	[45]	50 Swedish advanced service providers.	Swedish	2019
11	[46]	Jordanian listed firms in the ASE.	Jordan	2009–2015
12	[47]	Companies listed on major European indices in Belgium, France, Germany, Italy, and Spain.	Belgium, France, Germany, Italy, and Spain	2014–2017
13	[48]	68 microfinance institutions (MFIs)	Bangladesh	2019
14	[49]	407 companies	India	2009–2014
15	[50]	90 firms	Ghana	2012–2014
16	[51]	44 IBs operating	GCC) countries.	2010-2014
17	[52]	1207 companies	59 countries	2013–2015.
18	[53]	62 of the world’s leading financial markets.	World Economic Forum	2012
19	[54]	349 companies	GCC countries	2005–2012.
20	[55]	173 MFIs	Asian countries.	2007-2011
21	[56]	All firms panel	Brazil, India, Korea, Turkey	:(2004, 2006, 2009), :(2006, 2007, 2012), :(1998-2004), :(2006-2012).
22	[57]	54 companies	Malaysia	2010–2013
23	[58]	6 Islamic banks	UAE	2017
24	[59]	156 Indonesian firms	Indonesia	2017
25	[60]	275 firms	India	2011–2015
26	[61]	88 firms	Indonesia	2008-2012
27	[62]	1980 firm-year from the top 500 Green companies	United States	2009–2013
28	[63]	493 firms	Thailand	2001–2014
29	[64]	90 firms	Saudi Arabia	2017

4. Finding

A collection of mechanisms must be accessible for governance to play an essential part in solving the difficulties faced by economic companies, with the most important of these mechanisms being:

First: Effect of Board of Directors on Financial Performance and Firms Value

The Board of Directors (Board Size, Board Diligence, Board Composition, Board Independence, Board Meeting Frequency, Board Accountability, Female Directors on Board, Board Characteristics) have a favorable impact on financial performance and firm value. The strong board of directors strives to protect investments against misappropriation by actively participating in the development of the company's strategy, offering suitable incentives to management, monitoring, and evaluating its performance, therefore maximizing the company's worth. For these boards to be effective, they must be in a position that allows them to work for the company's profit while also taking into account the organization's social aims. In this context, the Private Sector Corporate Governance Trust (PSCGT) emphasizes the importance of having an effective board of directors that exercises leadership and directs the company with integrity and wisdom, as well as working for the company's best interests with transparency and responsibility.

Second: Effect of the Audit Committee on Financial Performance and Firms Value

The Audit Committee (Audit Committee, Auditor's Reputation, Audit Committee Composition, Audit Committee Size, and Audit Committee Diligence) has a favorable impact on financial performance and firm value. Through its role in creating reports and oversight of the internal financial audit function and the company, the audit committee can serve as a governance instrument in boosting confidence and openness in financial information presented by companies. Increasing the independence of the external auditor: Companies should organize an audit committee because they play a critical role in preventing future financial disasters by assisting in the preparation of financial statements and strengthening the independence of both internal and external auditors.

Third: Effect of the Ownership on Financial Performance and Firms Value

Ownership (institutional ownership, insider ownership, and ownership concentration) has a beneficial impact on financial performance and firm value. The study discovered that a company's ownership emphasis is critical, and that focusing on the largest shareholder can considerably boost the company's long-term profitability. As a result, it is obvious that the current shifts in ownership focus will diminish performance, but that the negative effects will fade with time and may even have a beneficial impact on the organization's performance.

5. Discussion and Conclusion

Corporate governance attributes are characteristics that must be present in order for it to achieve its objectives, and they include: Compliance: It is the intent to follow the appropriate and correct ethical rules of conduct, and it is achieved through the application of several concepts, including the existence of incentives for management to stick to the specific main business, the provision of accurate financial information to stakeholders, and the proper evaluation of the company's net assets [65]. Transparency: Because it encompasses multiple concepts such as integrity and disclosure, transparency is seen as the foundation upon which governance is built, and the company is committed to accurately and timely disclosing financial information related to the company's activity and performance, as a lack of transparency has a negative impact on economic growth [66]. Independence: Governance aimed to ensure that board members, external auditors, independent board committees, the audit committee, and internal audit were all independent [67]. Accountability: Expresses the prospect of holding board members accountable, evaluating management performance, and directing and guiding them in the development of strategy and goals [68]. Responsibility: It is the board of directors' responsibility in front of all firm stakeholders [69]. Justice: Fair treatment of employees and stakeholders, as well as the presentation of all financial and non-financial information needed of them, is achieved by attendance at meetings or commitment to the outcomes, and voting either in person or by proxy [70].

Governance attempts to achieve transparency and justice by preserving shareholders' and stakeholders' rights, holding the company's management accountable in the event of poor performance, and preventing the use of administrators' authority for purposes other than the public good. As a result, the company is based on the laws and regulations that have been implemented. The best use of savings is made, the company's profitability is maximized, and administrative mechanisms that allow shareholders to hold management accountable and keep their promises are in place [71]. Governance also encourages the establishment of a board of directors that, on behalf of stakeholders, keeps management accountable for achieving the company's objectives. Governance norms have mandated that appropriate space be given to the board of directors' independence and the requirement for independent members, the majority of whom are non-executive members, in order to obtain the greatest results [72].

Many studies have looked at the link between corporate governance and good performance, and they have discovered that businesses with an active and independent board of directors have the best results [73]. The following are the most important governance objectives, according to Eldenburg and et al [74]: To Develop a strategy to help the organization achieve its goals. Management, ownership, funding, and performance monitoring are all separated. Responsibilities are separated between the executive directors and the board of directors. Members of the board of directors accountable for their performance are evaluated and kept. The maximum possible number of local and international financiers is obtained to fund the company's operations. Employees and financiers are given the ability to track the company's performance and enhance its value. Rules that govern how businesses, managers, and stakeholders behave are created.

Governance mechanisms aim to consider the interests of all stakeholders in all management decisions, and so work not only to maximize the company's value, but also to avoid engaging in any illegal or immoral acts that could jeopardize the company's survival. As can be seen from the above, governance tries to establish transparency and fairness, protect stakeholders' rights, make the company's management accountable for poor performance, and limit the use of administrators' authority for purposes other than the public good. Administrative that allows the public authority to hold the administration accountable as well as the company's compliance with the provisions of the laws or enforced rules.

The OECD [75] has outlined basic governance principles, which include: Creating a strong foundation for corporate governance. Effective corporate governance necessitates a stable legal and regulatory foundation on which market actors can build their own contractual agreements. The corporate governance framework must promote market efficiency and transparency, as well as clearly clarify the distribution of responsibilities between the several organizations responsible for law oversight, control, and enforcement. Shareholders are treated equally. The corporate governance system must ensure that all shareholders are treated equally, with the ability for all shareholders to get appropriate compensation if their rights are breached (Stock markets, institutional investors, and other brokers) [76, 77, 78].

The corporate governance framework must provide favorable incentives throughout the investment period, as well as a suitable environment for stock markets to fulfill their job in a way that supports excellent corporate management. The corporate governance framework must acknowledge stakeholder rights established by law or by mutual agreements, and endeavor to encourage enterprises and stakeholders to collaborate in the creation of wealth and job opportunities. The corporate governance framework should ensure timely disclosure and transparency of all material matters related to the company, including the financial position, performance, ownership, and corporate governance. The corporate governance structure must assure the firm's strategic direction, as well as board of director's follow-up with executive management and board of director's accountability to the company and shareholders.

6. Study Recommendations

1. The financial performance of companies should be increased by encouraging investment in companies and providing cash liquidity that helps the executive management to invest in investment projects.
2. Laws and investment legislation should be developed that create an investment environment for foreign shareholders and thus increase foreign investment.
3. Institutional companies should be encouraged to invest in joint-stock companies because of their great experience in managing and analyzing financial statements, which contributes to forming pressure on management to amend their behavior and work to provide the best results.
4. The level of disclosure and transparency in financial reports should be increased and they should be made available to all stakeholders to give shareholders safety for their money.

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