The Influence of Corporate Governance on The Financial Performance of The Asian Stock Market of Large Companies

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ABSTRACT

The research aimed to know the impact of corporate governance with its variables (board size and board independence) on the financial performance of large Asian companies in the stock market. To achieve the research objectives, the study used the analytical approach and collected data from the stock market from 2019 to 2023 for 118 large company. Financial performance was also evaluated by using the rate of return on assets. The results concluded that there is a positive and important relationship between corporate governance with its variables (board size and board independence) with financial performance. The study indicates increased awareness and interest by the management of public shareholding companies regarding the importance of adhering to the rules of governance.

Keywords: corporate governance, financial performance, Asian stock market

Received: 12th May 2024   Accepted: 14th July 2024   Published: 5th August 2024
INTRODUCTION

Corporate governance (CG) and its relationship to a company's financial performance remains a basic area of empirical and theoretical study in the study of companies. CG has received attention and developed as an important mechanism over the past decades. The rapid growth of privatizations, the recent global financial crises, and the development of financial institutions have led to the strengthening of CG practices. Well-managed CG mechanisms play a role firm performance is important in improving corporate performance. It helps improve the company’s image, increases shareholder confidence, and reduces the risk of fraudulent activities (OECD, 2004). CG mechanisms are grouped into a number of consistent mechanisms. Internal control systems and external environments that contribute to successfully increasing businesses as a whole to achieve good CG are to increase corporate performance through structuring and sustaining initiatives that motivate corporate stakeholders to maximize the operational efficiency and market value of the company. As far as possible, customer relationship management grows in the long term by limiting the power of executives who can misuse company resources (Eleimat et al., 2024 & Ashour, 2021).

The expansion of insurance companies' business has led to the complexity of financial operations. They must develop ways and methods that have become necessary to manage them, by establishing mechanisms that ensure that insurance companies achieve their goals and ensure their continuity. To keep pace with this, governance has emerged as one of the new methods that provide transparency and increases confidence and control in companies, which results in improving their financial performance (FP). From here it can be said that the problem of the study focuses on answering the following questions related to question: Does the CG with its variables effect on the financial performance in Asian stock market? The importance of the study stems from it being an attempt to shed light on the impact of CG in the insurance sector and its impact on financial performance, which has not been studied and highlighted before, which is considered an effective contribution to identifying some aspects related to governance in the insurance sector, the most important of which are it presents to those concerned the positive aspects of CG and its role in improving the financial performance of Asian stock market.

Interest in the concept of corporate governance has increased in many developed and developing countries and economies over the past few decades, especially in the wake of the economic collapses and financial crises that several countries witnessed. Many studies
attributed these collapses and crises to weak CG structures or lack of practice in those companies (Eleimat et al., 2024). CG methods have become a commonly used term in all companies, especially public joint-stock companies, since they are companies that can be invested in by investors and other stakeholders, and they build themselves on trust, which is considered one of the most important rules of governance. It has also become these terms are becoming more important day by day. As a result of the increasing interest in the issue of specifically CG regulatory authorities in both developed and developing economies, these authorities have worked to review the laws, regulations and instructions regulating the work of sectors.

LITERATURE REVIEW

There is a growing interest in the concept of CG in many developed and emerging countries due to the advantages that governance provides to joint-stock companies. CG methods have become among the terms commonly used in all companies, especially public joint-stock companies, since they are companies that can be invested in by investors and other stakeholders, and they build It depends on trust, which is considered one of the most important rules of governance, and these terms are becoming more important day after day (Al-Najjar et al., 2016).

The need for governance has emerged in many advanced and emerging economies over the past few decades, especially in the wake of the economic collapses and financial crises that a number of East Asian countries, Latin America, and Russia witnessed in the 1990s, as well as the financial and accounting collapses that the American economy has recently witnessed (Alouna & Abdel Karim, 2013).

The previous studies such as Eleimat et al. (2024) and Lukiman & Wirianata (2024) the studies related to the relationship between governance mechanisms and financial performance, the derivation of the company, the impact of excessive administrative confidence on that relationship, and the research hypotheses test and analyze the relationship between CG mechanisms and the company’s financial performance, with the aim of identifying which of these mechanisms has a significant impact on the company’s financial performance. Some other studies also attempt to and determine the impact of excessive administrative confidence on the relationship between corporate governance mechanisms and the financial performance of the company. The researcher will examine my group of previous studies with the aim of deriving the research hypotheses are as follows determine the relationship between governance
mechanisms and the financial performance of a company and derive the first hypothesis. CG mechanisms that are well managed play an important role in improving the performance of companies. This is essential in several ways: the Organization for economic Co-operation and development (OECD) (2004) points out that good corporate governance increases company image, reduces the risks, and enhances shareholders’ confidence. Good CG develops a number of consistent mechanisms, internal control systems, and external environments that contribute to effectively increasing business as a whole to achieve good CG. The rationale for CG is to improve the financial performance of companies by structuring and sustaining the incentives that motivate corporate managers. To maximize the company's operational efficiency, return on assets, and increase the company's long-term growth rate by reducing managers' misuse of company resources.

Lotfy et al. (2010) entitled the impact of applying disclosed governance mechanisms on financial performance an applied theoretical study on joint stock companies in the of Saudi Arabia. The study aimed to investigate the impact of applying disclosed governance mechanisms on the financial performance of Saudi joint stock companies. To achieve this goal, the researcher analyzed the content of the financial statements of companies, where the study included the governance mechanisms and the financial performance was measured by financial ratios (rate of return on shareholders’ equity, the ratio of the market value of the share to the book value), and The study found a significant relationship between the CG and financial performance.

Al-Maryani. (2015) conducted a study that aimed to test disclosure and transparency within the framework of international principles of corporate governance, and their accounting implications in the financial reports of companies in emerging market economies. The study attempted to test this topic in the environment of Iraqi companies by studying and analyzing financial reports. The study population represented the environment of Iraqi companies, through the study and analysis of published financial reports, and the study sample consisted of (62) companies listed on the market. In the Iraqi period, in the period 2011-2012, one of the results reached by the study is that the availability of the material requirements of disclosure and transparency in the financial reports of companies listed on the Iraqi stock exchange was low, and there was a significant effect of the type of companies’ activities on the availability of disclosure and transparency requirements, and there was no. Any impact of company sizes on the availability of these requirements.
There are many Arab and foreign studies that have addressed CG and its impact or relationship to financial performance. Since the most important element of agency theory is the focus on the structure and characteristics of the board of directors because of its effective role in preserving and developing owners’ rights, these studies aimed to reach a relationship or impact. Characteristics of the board of directors structure (duality of the role of the CEO and board of directors membership / size of the board of directors / independence of the board of directors / size of the company / activity of the audit committee / number of board meetings / government ownership / and many others) are linked to financial performance. Studies have differed in the characteristics of the structure of the board of directors that it was tested and its results varied. For example, that the dual role of the CEO and board membership has a positive impact on the financial performance of companies according to the results of the study (Salehi et al., 2018). While there is no impact of the same element on the financial performance of companies according to the results of the study. The reason for the difference may be due to the difference in the population and sample of the study, as well as the time period of the study. We find that the study of (Salehi et al., 2018) was directed towards the shareholding companies in Algeria during the period (2014-2016), while the study was directed towards the shareholding companies in Algeria during the period (2014-2016). For petrochemical companies listed on the Saudi stock exchange during the period (2010-2015). Although the results of the studies (Salehi et al., 2018) differed regarding (the dual role of the CEO and board membership), the results of their studies agreed that there was no effect (of the size of the board of directors) on the financial performance of companies. Hence, this research fills this gap by seeing the link.

The next is hypothesised:

**H1. The corporate governance (board size and board independence) is positively connection with financial performance of Asian stock market of large companies.**

**METHODOLOGY**

The study population consists of all joint stock companies listed on the Asian stock market over a period of 2019 to 2023, for which the data available from annual reports and DataStream whose stocks were traded regularly during the study period. According to the number and names of companies listed on the Asian stock market during the period the study sample includes 118 listed companies. The financial performance measured by using return on assets (ROA). CG measured by using global reporting initiative (GRI) with disclosure of 0 to 2, the score of 2 represents quantified and detailed disclosure, 1 represents general disclosure and the
score and 0 represents no disclosure. “The Total number of directors at the date was measure the board size”. “The percentage of independent non-executive directors serving on the board to total directors on the board at the date was measure the board independence”. “1 indicates refers to the manufacturing company and 0 non-manufacturing or otherwise was measure the industry”. “The firm age is measured by the number of years the firm has been established”. Figure 1 shows the corporate governance according to the years.

\[ \text{Fig 1:} \text{ Shows the corporate governance according to the years.} \]

One model is used to test the link between CG with it variables and FP. This research uses a regression method employing the “ordinary least squares (OLS)”. The model regression below clarifies the relation.

\[ FP_{it} = \beta_0 + \beta_1 CG_{it} + \beta_2 BSIZE_{it} + \beta_3 BIND_{it} + \beta_4 IND_{it} + \beta_5 FAGE_{it} + \epsilon \]

RESULTS

Table 1 shows the results of the descriptive analysis of the study variables for a sample of 118 companies listed on the Asian stock market during the period 2019-2023. Table 1 shows the arithmetic mean, standard deviation, highest value, and lowest value for the study variables. The financial performance presentations a mean with 27.499 and the CG show 0.501. The BSIZE, BIND, IND, and FAGE show the meaning of these variables 6.290, 0.503, 0.739, and 17.325.

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|c|c|}
\hline
Variable & Obs & Mean & Std. Dev. & Min & Max \\
\hline
CG & 118 & 0.501 & 0.524 & 0.000 & 2.621 \\
\hline
\end{tabular}
\end{table}

DOI: 10.48165/sajssh.2024.5412
Correlation Analysis

Based on what was presented in the statistical analysis of the study data and the correlation testing shows in the table 2 there is positive and important correlation between CG and FP. The CG variables such as the BSIZE and BIND shows there is a positive significant correlations with FP. The IND shows a positive link with FP but the FAGE shows the negative correlations with FP.

Table 2: Correlation Test

<table>
<thead>
<tr>
<th>Variables</th>
<th>FP</th>
<th>CG</th>
<th>BSIZE</th>
<th>BIND</th>
<th>IND</th>
<th>FAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>FP</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CG</td>
<td>0.721***</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BSIZE</td>
<td>0.183*</td>
<td>0.210**</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BIND</td>
<td>0.167</td>
<td>-0.133</td>
<td>-0.234**</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IND</td>
<td>0.213**</td>
<td>0.156</td>
<td>-0.114</td>
<td>0.201**</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>FAGE</td>
<td>-0.021</td>
<td>0.113</td>
<td>0.245**</td>
<td>-0.129</td>
<td>-0.089</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Table 3: Regression Results

<table>
<thead>
<tr>
<th>Variables</th>
<th>OLS</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>FP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variables</td>
<td>t.stat</td>
<td>sig</td>
</tr>
<tr>
<td>CG</td>
<td>0.55</td>
<td>0.052*</td>
</tr>
<tr>
<td>BSIZE</td>
<td>0.23</td>
<td>0.011**</td>
</tr>
<tr>
<td>BIND</td>
<td>0.40</td>
<td>0.053*</td>
</tr>
<tr>
<td>IND</td>
<td>0.30</td>
<td>0.013**</td>
</tr>
<tr>
<td>FAGE</td>
<td>0.31</td>
<td>0.072*</td>
</tr>
<tr>
<td>Constant</td>
<td>-0.74</td>
<td>0.732</td>
</tr>
<tr>
<td>OLS Heteroskedasticity</td>
<td>0.101</td>
<td></td>
</tr>
<tr>
<td>n</td>
<td>118</td>
<td></td>
</tr>
<tr>
<td>R2 (%)</td>
<td>37%</td>
<td></td>
</tr>
<tr>
<td>Adjusted R2 (%)</td>
<td>52%</td>
<td></td>
</tr>
<tr>
<td>F-value</td>
<td>0.29</td>
<td></td>
</tr>
<tr>
<td>p-value</td>
<td>0.80</td>
<td></td>
</tr>
</tbody>
</table>

Based on what was presented in the statistical analysis of the study data and testing its hypotheses, the following results were obtained. Table 3 shows the results of the regression test showed that there is a positive and significant link between CG and FP (t. test 0.55, sig

DOI: 10.48165/sajssh.2024.5412
0.052). The BSIZE, BIND, IND, and FAGE displays there are a positive and significant link with FP.

There is a varying commitment from the Asian stock market companies to applying the rules of corporate governance, respectively. These results indicate increased awareness and interest by the management of public shareholding companies regarding the importance of adhering to the rules of governance. Based on the previous results, we reject the null hypothesis and accept the alternative, meaning that there is a statistically significant effect of the ROA. The study results confirmation the hypothesis.

CONCLUSIONS AND RECOMMENDATIONS

The study results concluded that there is a positive relationship between CG and FP. The commitment of all companies to the CG (BSIZE and BIND) regulations after mandatory implementation has a positive impact on FP. The size of the company affects the financial performance of capital goods firms listed on the Asian stock market.

The Commitment of all companies to apply the governance regulations, whether encouraging and motivating companies that are committed to applying the governance regulations, especially those that are not listed in the financial market. Conducting further studies on the relationship of other variables with governance that were not addressed in the study, especially for Asian firms. Limitations of the researcher aimed to test the study variables as one of the characteristics due to the possibility of collecting data about them for most companies listed on the Asian stock market. The researcher faced challenges during the study, including the lack of references and studies that dealt with capital goods companies. Research results, recommendations, and proposed research areas. The research aimed to study and test the impact of corporate governance mechanisms (receiving the board of directors, dual role of the CEO, concentration of ownership structure, competition in the product market, and financing by credit) on the financial performance of non-financial companies listed on the Asian stock market.

Through the results of the research, and the recommendations of previous studies that are similar in their results to the current study, the researcher recommends the need for insurance company managements to continue to adhere to CG requirements with the aim of maintaining the best optimal ratio for applying CG rules in order to ensure the continued positive impact of governance rules on FP. It is necessary to mention the academic qualifications of members of
the CG and audit committee in the annual reports of insurance companies in the Asian stock market. The necessity of activating and enhancing the disclosure of governance rules applied in companies through annual reports, in order to help those companies recognize the shortcomings in applying governance requirements. The necessity of supporting what departments related to governance is doing within the financial institution, such as the compliance department, and internal audit. The necessity of conducting more scientific research related to insurance companies in the Asian stock market, in the field of governance.
REFERENCES


