THE ROLE OF CORPORATE GOVERNANCE IN ECONOMIC DEVELOPMENT

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Abstract. With the increasing interest in the concept of governance, this research aims to draw attention to the role of corporate governance for modernization the companies administration and its impact on the development of the economy. Especially that the concept of good governance is of great importance, especially in view of the transformations and developments that have afflicted the states and societies in recent decades, through a set of reforms that have affected many areas and that aim to Modernization and development administration in institutions, which suffers from a set of problems and which constitute an obstacle to achieving the objectives of the public service to raise the quality of services and development of the economy. The results showed that that applying the concept of good governance as a tool or a system for the modernization administration and development of economy, will inevitably have an effective impact on modernizing of corporate administration and achieving economic development, by making the administration impartial and at the service of society.

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Introduction. Corporate governance is one of the most prominent and important issues in regional and international institutions and organizations, and interest in this topic has grown in many advanced and emerging economies over the past years, especially after a series of different financial crises that occurred in many companies in East Asia, Latin America and Russia. In the nineties of the last century, which was triggered by financial corruption, mismanagement, and its lack of control, expertise and skill, in addition to the lack of transparency, as these crises and collapses led to many shareholders suffering heavy material losses, which prompted many investors to search for companies that apply the concept of corporate governance. The importance of governance has increased as a result of the tendency of many countries of the world to shift to capitalist economic systems in which it relies heavily on private companies.

As a result of all this, interest in the concept of corporate governance has increased, and it has become one of the basic pillars on which economic units must be based.

With the increasing interest in the concept of governance, many institutions have been keen to study and analyze this concept. The most important of these institutions are the International Monetary Fund and the Organization for Economic Cooperation and Development.

Therefore, this article came to present and analyze the concept, importance, determinants, advantages and objectives of governance and its impact on economic development.

Information and studies indicate that the collapse of many economic units has led to the loss of the rights of current investors and the loss of confidence of new investors in these companies, so the interest in applying the concept of corporate governance was the best, safest and fastest solution to address these negatives that accompanied the
collapse of many economic units, for all of these Reasons The interest of many economic researchers, writers, analysts and others in addressing these matters.

**Literature review.** Exploring the issue of corporate governance, the author will study the basic definitions (Jalal Al-Abd, 2008), standards (Mohamed Hassan Youssef, 2007) and corporate governance rules (Khaled Ismail Ali (2008)). Particular attention should be paid to the work on establishing the relationship between Corporate Governance and Entity Management (Kerie Kerstetter, 2018). Equally important are papers on the features of corporate governance in the stock market (Muhammad Ahmad Ibrahim Khalil, 2011) and in banking institutions (Muhammad Hatamleleh, 2007).

**Aims.** The research aims to: -

1. identify the positive aspects and advantages of corporate governance and how to benefit from them in order to improve the quality of companies;
2. learn about the concept and concept of corporate governance, its characteristics and determinants;
3. identify the elements and principles of corporate governance in banks;
4. provide appropriate suggestions and recommendations in this field.

The importance of the research is evident from the importance of adress the subject of corporate governance, and this research contributes scientifically to resolving deficiencies in some aspects in order to enhance the role of corporate governance in companies. The research is also concerned with highlighting the importance of expanding the application of the concept of corporate governance in the local economic environment.

**Methods.** The researcher relied on the general descriptive, analytical and approach based on the reality of information, publications, studies, scientific periodicals, and available electronic information sources (Internet).

**Results.** In view of the importance of the research, the research was divided into three sections. The first one included a presentation of the definition, concept, determinants, importance and objectives of corporate governance, while the second topic reviewed governance in the banking system through the elements and principles of governance in the banking system in addition to the role of banks in promoting the principles of governance. The third topic covered the role of governance in economic development and economic reform. Then included findings, recommendations and references.

**I. Definition, importance and objectives of the concept of corporate governance.** The concept of free economy adopted by most countries of the world, the emergence of globalization and the liberalization of financial markets led to companies achieving high profits and creating new investment opportunities and job opportunities in the countries in which these companies operate. In order for these companies to maintain their distinction, they are working to create perfect governance structures that guarantee A certain level of transparency, fairness and financial accuracy.

*Definition and concept of corporate governance.* Corporate governance is one of the most important and comprehensive terms that have spread globally during the last two decades, and interest in governance has increased in most emerging and developed
economies due to its connection to organizational, accounting, financial, economic, social and environmental aspects.

It should be noted that at the global level there is no unified definition agreed upon by all economists, jurists, analysts, writers and researchers of the concept of governance. Rather, there are several definitions and concepts according to the interests of these writers, researchers, analysts and others, some of which we will mention (Hussein Dahdouh, 2007).

The concept of governance is:
- A set of laws, rules, regulations, standards and procedures aimed at regulating the nature of the relationship between the management of the company and the owners to reach the achievement of quality and excellence in performance.
- It is a set of incentives followed by the company's management to increase the size of profits for the benefit of shareholders.
- It is an integrated system for financial and non-financial control.
- Shareholders are allowed to appoint a board of directors for the company to manage it.
- It is a number of rules, instructions, incentives and control aimed at serving shareholders.

Governance is a set of systems, decisions, and policies that the company follows in order to achieve quality and excellence in choosing effective methods capable of achieving the company's goals. It is about managing and controlling the company's resources in the financial and administrative side. Achieving transparency, independence, justice and integrity as guarantees against corruption and mismanagement.

It is a specific system according to which the company’s work can be managed and monitored in order to enhance and develop the principle of disclosure, transparency and accountability in order to achieve maximizing the company's profits.

The importance of corporate governance. Some view governance from a legal perspective to regulate the forms and types of dealings between the parties of the company with each other, and others view governance from an economic angle to achieve profits, and there are those who look at it from an ethical point of view in the nature and form of the different parties of the relationship within the company.

After the expansion that occurred in the investment base and the increase in the number of owners of the same company, corporate governance emerged to address the conflict of the relationship between the management of companies and investors, that is, the separation between the management of the company and its ownership, by adding non-executive managers to the board of directors.

Activating corporate governance practices ensures the integrity of the relationship between investors and companies through financial control and voting rights for owners regardless of the amount of their shares, and despite the additional financial burdens that corporate governance adds, it has a major role in the results and activities of companies.

In general, the existence of corporate governance has been linked to reforming and improving the financial market and operating companies in most countries of the world, and it is considered a factor that attracts and attracts foreign investment.
The relationship between governance and management. Why governance is important to management?

Governance: is the processes that ensure the effective and efficient use of IT in enabling an organization to achieve its goals, Governance supports management in several basic aspects:

Business Management: Empowering the business to know what to deliver, why it is important and the value to the business.

Change Management: The process to manage enhancements, prioritization and utilization of resources.

Release and quality Management: Ensuring the highest quality Through organized processes.

Support Management: The ability to provide Subject Matter Expertise, responsiveness and education.

Therefore, what can be concluded from this proposed idea is that it is not possible to talk about good governance in the absence of the concept of governance and its relationship to administrative development.

It’s meaning that governance means setting the controls and means of control that ensure the proper management of the company. On the other hand, it ensures that the management improves the utilization of the company's resources and seeks to maximize the profitability and value of equity in the long term. It also reflects the administration’s interest in the basic interests of society in the areas of public health, human resource development, and environmental protection.

In general, it can be said that the governance system constitutes a guide to self-control, that is, how the company's management behaves when no one is monitoring it. Governance is also considered one of the most important means aimed at achieving economic development and community well-being, establishing the values of democracy and justice, equality of opportunity, transparency and disclosure that guarantee integrity of transactions, strengthening the rule of law, and drawing the boundaries between
private and public interests and preventing the abuse of position and influence. Governance is the reconciliation of conflicting interests. (Kerie Kerstetter, 2018)

It is worth noting that it is not enough to formulate a elaborate system and comprehensive rules for governance, but rather what is important is that this system be effectively practiced. The recent global financial and economic crisis has demonstrated the absence of governance even in developed countries as a practice despite the existence of integrated systems and comprehensive rules. This crisis demonstrated the existence of a significant failure in the practice of governance, weak compliance with its provisions, and the absence of ethical standards in management behavior.

Objectives and advantages of corporate governance. Good corporate governance achieves many goals, the most important of which are:

- achieving transparency and justice and protecting the rights of shareholders in the company. This is done by creating rules, regulations, and controls aimed at achieving transparency and justice;
- create controls, rules, and administrative structures that grant the right to hold the company's management accountable before the general assembly and guarantee the rights of shareholders in the company;
- developing investments and their flow by deepening investor confidence in the financial markets;
- work to develop savings, maximize profitability, and create new job opportunities;
- working on good financial performance by holding management accountable to shareholders;
- imposing good and effective control over the performance of economic units to develop and improve the competitiveness of economic units;
- work to combat unacceptable behavior, whether on the material, administrative or moral side;
- providing new job opportunities;
- attracting investments, whether foreign or local, and limiting the flight of national capital abroad;
- transparency in accounting and financial auditing procedures to reduce and control corruption in the company;
- developing, improving, and assisting decision-makers such as managers and boards of directors to build an advanced strategy that serves the company's administrative and financial competence;
- work to stimulate the workforce in the company, improve their production rates, and deepen their confidence in the company;
- increased information, experience, and skills as a result of working with governance.

In the end, it must be noted that one of the most important goals of corporate governance is to work to hold accountable, accountable, and combat administrative and financial corruption in the company in all its forms, as well as work with all available means to attract local and foreign investments, whether by legislation or laws and privileges granted to investors, in addition to applying the principle of good morals. Good and humanitarian and economic dealings between corporate dealers. The ethical
aspects of corporate work are the most appropriate to support good and successful governance. (Amer Al-Husseini, 2008)

**Determinants of corporate governance.** There are two sets of determinants on which the level of quality and good implementation of corporate governance depends. The following are two groups presented. (Mohamed Youssef, 2007).

1) **External determinants:**
   The presence of such determinants ensures the implementation of laws and rules that help in the proper management of the company, and this group includes:
   - the general environment for investment that organizes economic activities in the country, such as laws, legislations, and procedures regulating the labor market and companies;
   - regulating competition and preventing monopolistic practices and bankruptcy;
   - the efficiency of the existence of the financial sector that provides the necessary funds for the establishment of projects and the efficiency of the regulatory agencies in the provisions of supervision of companies;
   - the existence of some self-regulating institutions such as professional associations and companies operating in the stock market;
   - the existence of private institutions for liberal professions such as law firms and investment financial advisory offices.

2) **Internal determinants.** These determinants include:
   - the rules, instructions and principles that determine the type and form of decisions within the company;
   - distribution of powers and tasks between the general assembly, the board of directors and the executive directors, in order to reduce the conflict between the interests of these parties;
   - governance ultimately increases confidence in the national economy;
   - increasing and deepening the labor market to mobilize savings and raise investment rates;
   - work to ensure the rights of the minority and small investors;
   - work to support and encourage the growth of the private sector, especially its competitiveness;
   - assisting projects in obtaining financing for their projects and making profits;
   - job creation.

**Governance Standards.** Many institutions have been keen to set specific standards for the application of governance, and in this topic some governance standards will be reviewed through the perspective of these institutions' point of view as follows: -

1. **Organization for Economic Cooperation and Development (OECD) standards.**
   The Economic Cooperation Organization defined five standards in 1999 and then issued an amendment to them in 2004, and these standards are:
   - The existence of effective corporate governance frameworks that guarantee efficiencies, transparency and effectiveness of markets, and clearly define the distribution of responsibilities between the various regulatory and executive authorities.
   - Preserving the rights of all shareholders such as:
a. Transfer of ownership of shares.
b. The right to choose a board of directors.
c. Obtaining dividend returns and reviewing financial statements.
d. The right to participate in the company's general assembly meetings.
e. The right to vote.
f. Equality among all shareholders, meaning equality between shareholders, whether national or foreign, in terms of voting in the General Assembly, in addition to their right to be informed and know everything related to transactions.

- Creating a legal mechanism that allows shareholders to participate in the effective control of the company and to obtain the required information, and this means the owners of banks, employees, bondholders and customers.
- Applying disclosure and transparency in a timely manner about all the company's business, including the financial situation, performance and ownership, where the disclosure is done in a fair manner among all shareholders.
- Determine the tasks and duties of the Board of Directors, the method of selecting them, their tasks and their role in supervising the management of the company.

2. Standards of the Basel Committee on International. In 1999, the Basel Committee developed instructions and guidelines related to governance in institutions. The most important of these instructions are:

- Establish pacts of honor between institutions to achieve and implement good behavior between these institutions.
- Establishing a strategy for the company with the participation and contribution of individuals.
- Determine and distribute responsibilities and decision-making centers among council members.
- Creating a system that includes internal and external audit functions and an independent department.
- Creating formulas and mechanisms showing the type and form of cooperation between the Board of Directors and the auditors.
- Create a kind of monitoring for risk centers such as (major shareholders and senior management).
- The application of justice and equality when distributing material and administrative incentives, whether among managers or employees, whether the incentives are material, promotions or administrative.
- Ensure the provision and flow of appropriate information.

3. Standards of the International Finance Corporation. In 2003 the International Finance Corporation of the World Bank set rules, foundations, and financial and administrative standards aimed at supporting governance within institutions. The most important of these principles are [2]:

- Practices must be good and acceptable.
- Finding new steps that guarantee new good judgment.
- Key contributions to developing and improving good governance locally.
- Good driving (Ibrahim Al-Essawi, 2003).
II. Governance in the banking system. As a result of rapid developments in financial markets, globalization of financial flows, progress, technology, competition between banks and non-banking establishments, and the growth of financial markets, the focus and interest in applying the principles of corporate governance in banks came.

Governance in the banking system means protecting the rights of shareholders and depositors, as well as monitoring the performance of the activities of the boards of directors and the upper management of banks, and applying governance to public, private and joint banks.

1. Elements of governance in the banking system. The most basic elements of the governance process are represented in two groups as following:
   
The first group includes:
   - Shareholders of the company.
   - The Company Board of Directors.
   - The company's executive board of directors.
   - Company's internal controllers and auditors.

The second group consists of:
- Persons deposited in the company.
- Deposit Insurance Fund.
- The media side.
- Credit rating companies.
- Legal, regulatory and supervisory aspects

2. Principles of corporate governance in banks:

The Basel Committee issued a report on the role of corporate governance in banks in 1999, then it issued an amended version of this report in 2005, and in 2006 the Basel Committee issued an updated and amended version of the previous report, and the most important of what was mentioned in this copy are the following principles (Basel committee on banking supervision, 2014).

1) Members of the corporate boards of directors must be qualified and able to manage the bank’s business and responsible for the performance and integrity of the financial position and the creation of a strategy for the bank’s work or be able to take corrective decisions on all occasions.

2) The Board of Directors must monitor and manage the strategic objectives of the bank, taking into consideration the interests of shareholders and depositors, in addition to their responsibility to provide adequate protection for workers who prepare reports on illegal or unethical practices from any direct or indirect disciplinary measures.

3) Creating an integrated administrative structure that encourages accountability and defines the responsibilities of the board of directors, senior management, managers and workers in the bank.

4) The bank officials possess the necessary and important skills, experience and information to manage the bank in accordance with the policies and directions laid down by the board of directors.

5) The independence of auditors and internal control as they are the essence of governance in the bank, because effective internal and external audit and control are very important to the bank’s long-term safety. The board of directors and senior
management of the bank must ensure that the financial statements represent the bank’s financial position in all its aspects.

6) Remuneration and remuneration policies conform to the objectives of the bank's long-term strategy.

7) The principle of transparency is important and necessary for sound governance, as general disclosure is necessary for banks registered on the stock exchange to achieve discipline in the market, and the disclosure must be timely, through the bank’s website and in international reports.

8) The board of directors and senior management must structure the bank’s operations and the legislative environment in which it operates.( Governance in banks , website).

3. The effect of implementing corporate governance in banks: -

There is no doubt that the banks ’implementation of good governance will lead to multiple and different positive results, and the following are the most important of these advantages:

– Increasing the bank's financing opportunities.
– Low investment costs made by the bank.
– Governance encourages financial market stability.
– Work to fight corruption in all its forms.

When banks commit to implementing governance standards, it contributes to encouraging companies that borrow from them, to implement these rules, the most important of which are disclosure, transparency and good governance.

The companies' application of the principles of corporate governance leads to a decrease in the degree of risk when dealing with banks.

4. The role of banks in promoting the principles of corporate governance: -

Banks are the main source for meeting the financing needs of economic activities in general, including companies. These needs play an important role in the work of companies to achieve their profit goals.

The role of banks in enhancing corporate governance can be clarified through two axes, namely :

- The first axis. Banks are considered pioneers in adopting the principles of corporate governance as a public joint stock company, and on this basis, the principles of corporate governance reduce the size of the risks that banks may be exposed to.

Promoting the principles of sound governance practices in banks must pass in two directions: the first direction is led by the central banks as they are responsible for monitoring and regulating the banking system, and the second direction is led by the banks themselves.

As for the most important reforms required in this field, they are separating, as much as possible, between ownership and management, and enhancing the role, functions and powers of these councils, whether in appointing directors or forming committees. In addition, re-evaluation and strengthening of the audit process.

- The second axis. Enhancing the role of banks in applying the principles of corporate governance as the main financier for companies.
One of the main pillars of a sound stock market and the corporate sector is the existence of a sound banking system that provides credit and liquidity.

The interest of banks in corporate governance gives credit to customers, whether in the field of borrowing or interest rates granted to customers.

The review of credit policies at banks shows the needs of these policies for the existence of corporate governance principles within the objectives of the bank itself. The existence of a corporate governance culture within the cultural concepts prevailing among credit managers is considered an imperative.

From this standpoint, banks must adopt governance as one of the elements of a credit decision, and obligate customers to practice governance for the concept of the best customers.

It also requires educating investment managers in banks about the concept of corporate governance.

III. The role of governance in economic development and economic reform. Interest in the concept of corporate governance has grown in most developed and emerging economies during the previous decades, especially after the economic collapses and financial crises that occurred in some countries. And supervision, lack of experience and competence, and from this standpoint many experts, analysts and economists talked about the effects of corporate governance on economic and social aspects and achieving comprehensive development in both emerging and developed countries alike, and in this topic will address the economic, legal and social importance of the concept of corporate governance.

Multiple studies indicate that commitment to applying the conceptual concept of corporate governance reflects well on the performance of economic units in its various financial and operational dimensions and continued growth. The importance of corporate governance for achieving both economic development, legal immunity, and social welfare for economies and societies has grown considerably (Duncan Green, 2015).

1. The importance of corporate governance in achieving economic development. There is no doubt that corporate governance works greatly on the efficient use of economic resources and supports companies' competition between markets, and governance is working to attract more sources of funds (local and international financing) to enhance the company's growth.

In this regard, Winkler emphasized the importance of corporate governance in achieving economic development and avoiding falling into financial crises.

Corporate governance also works to ensure the rights of shareholders in addition to the competitiveness of companies in global financial markets.

2. The economic importance of implementing corporate governance standards and rules and relation to management. The need for corporate governance has emerged in the Arab world in particular and in developing countries in general after the economic reform that began at the beginning of the new century in this country, in addition to giving the role of the private sector in implementing development policy in these countries.
It is well known that companies prepare their final accounts at the end of each year and the disclosure and transparency they require when preparing these accounts, because following sound and clear principles of corporate governance will lead to creating the necessary precautions to fight and combat administrative and economic corruption.

In this regard, we will shed light on the most important principles of corporate governance rules, and the following are the most important of these principles:

- The board of directors shall set the formulas, mechanisms, instructions and systems that ensure the companies respect and adhere to the applicable laws and regulations and their commitment to disclose essential information to shareholders, creditors and other stakeholders.
- Board members must consider themselves representatives of all shareholders.
- That the technical expertise and skills be available in non-executive board members when selecting and appointing them.
- Attention to meeting minutes, records and notebooks.
- The annual report presented to shareholders must include the company's business, its financial position, and the future outlook for the company's activity (Khaled Ismail, 2008).
- Finding formulas and methods that allow shareholders to express their opinions and enable them to make sound and thoughtful decisions.
- The necessity of having audit committees affiliated with the Board of Directors to follow up on economic units.
- The Internal Audit Committee undertakes the preparation, study and efficiency of the internal control system and the financial statements before submitting them to the Board of Directors.
- Audit committees play a vital role in ensuring the quality of financial reports and the correctness of accounting information when they are involved in preparing internal and external auditing processes and resisting management pressures and interference.
- Disclosure and transparency in the presentation of financial and non-financial information is one of the principles underlying corporate governance.
- The necessity of clarity in the announced policies, especially with regard to what the company intends to do in terms of developing or changing the size, training and programs of manpower, in addition to credibility and keenness to maintain the confidentiality of the financial and commercial information of the company (Muhammad and Chandra, 2020).

Governance of the economy means working to close every loophole through which corruption may seep into economic institutions, whether private or public.

3. Corporate Governance and Social Welfare. There is a comprehensive concept of corporate governance that goes beyond economic companies such as companies owned by the public or private sector, whose production is linked to goods or services that have an impact on the well-being of members of society, and there is a common saying that if the company is reformed as the core of the economy as a whole and if corrupted, its influence extends to harm large numbers of categories of the economy And society. In light of this trend, corporate governance has an impact on individuals, institutions and
society as a whole, as it provides individuals with the guarantee of achieving a measure of profits and ensuring the stability and progress of markets, economies and societies.

We can say that companies affect and are affected by public life, especially on jobs, incomes, savings, living standards and other matters of concern to the lives of individuals and institutions, and given the fundamental importance of corporate governance in the progress of countries’ economies, these countries have been concerned with consolidating the rules and regulations that lead to the stability of their economic markets.

The following fig. 2, illustration shows the role of governance in the developing the economy and impact for society.

![Fig. 2. The role of governance in the developing the economy and impact for society](https://www.scoop.it/topic/lfgovernance)

4. Corporate Governance and Legal Immunity. Legal interest in corporate governance because it works to ensure the rights of multiple parties in the company, such as shareholders, boards of directors, managers, workers, lenders, banks and other stakeholders.

Laws, legislations, laws and regulations governing the work of companies are the backbone of the relationship between the concerned parties in the company and the economy as a whole.

Among the most important of these laws are corporate, financial and banking laws, accounting, auditing, prevention of monopoly, taxes, labor and others. In this regard, the
International Finance Corporation emphasized in 2002 the need to pass legislation for corporate governance and focus on two important pillars: disclosure and sound accounting standards.

Despite the multiplicity of laws, instructions and procedures related to corporate governance among countries, these regulations and laws are a safety valve to ensure good corporate governance.

The standards of disclosure, transparency and accounting standards are also the backbone of corporate governance principles.

**Results.** Despite the importance of corporate governance, it is still an area of disagreement and disagreement among researchers and academics in this matter, as many of the terms used appeared, but the common and most used term in the academic and research field is Corporate Governance.

In recent years, interest in the concept of corporate governance has increased dramatically and clearly, and it has become one of the main pillars on which the various economic units must be based.

The application of corporate governance is the way out and the effective solution to ensuring the rights of stakeholders within companies, especially investors.

Demonstrate the influence and importance of the concept of corporate governance for the benefit of individuals, institutions and societies in many economic, legal and social aspects.

Good corporate governance in the form of disclosure of financial information reduces the cost of capital for institutions.

Good corporate governance helps attract investment, whether foreign or domestic, and helps to limit capital flight and combat corruption.

Commitment to implementing the intellectual aspects of corporate governance reflects well on the performance of the economic, social, financial units.

Researchers, academics and professional organizations should pay more attention to the issue of governance in order to properly establish the principles of governance, by holding seminars, conferences and meetings.

Working to increase disclosure and transparency in companies.

Developing the awareness and awareness of those in charge of companies regarding the importance of governance for their companies, through seminars, meetings and conferences.

Trying to Issuing a unified vision for the concept and functioning of corporate governance.

Enacting and developing many legislations, regulations and laws to improve the performance of boards of directors, directors and shareholder rights within the company.

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