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The Influence of Corporate Governance on the Company's Value

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Abstract: This paper critically analyzes corporate governance and its importance in establishing a company's value. We mainly explore how corporate governance affects various aspects, such as the company's financial performance, inves-tor attraction, and ability to work without malpractices, all of which are per-ceived as helping the company gain its value. Findings from this paper show that companies with strong corporate governance are more likely to perform well in the market and attract more investors.

Keywords: corporate governance, company, value, influence.

1. Introduction

The impact of corporate governance (CG) on the value of a company (CV) continues to be an essential research topic in the 21st century. For instance, as recently as January 2022, Le [1] conducted a study to examine how corporate governance influences the value of companies in emerging markets. Similarly, a study was conducted by Nguyen [2] and Guluma [3] on this topic. While many studies have already been carried out on this topic, however, Le [1] argues that this topic will continue to attract more attention in the academic field given the escalating business world that companies are currently operating in, the social problems that continue to affect the business world, as well as academicians growing curiosity regarding how companies can be governed to ensure a balance is a social, economic, and environmental value. This paper, therefore, aims to expand the current literature on the existing link between CG and CV by closely examining how corporate governance affects the value of a company in the contemporary business world.

2. Definition of Corporate Governance and Company Value

2.1. Corporate Governance

Ntim [4] argues that CV has become an independent study field in the last few decades. The scope of CV has also expanded significantly and has become a combination of several subjects such as economics, accounting, finance, ethics, law, organizational behavior, law, and even politics [4]. The expansion of CV also means that the term has attracted several definitions. Despite several CG definitions, most scholars seem to define CG as a concept that helps to control and direct an organization. In their study, for instance, Bubbico and Shubita [5] described corporate governance as the processes and procedures used to control and direct an organization.

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According to Nguyen [2], the primary goal of CG is to assist a company in developing a system by which its operations would be directed and controlled with the best interests of the stakeholders in mind. A solid CG structure can provide a framework for monitoring all stakeholders accountable for managing the company's resources controlled by its shareholders [2]. CG continues to be important in organizations in the contemporary business world mainly because it helps companies control risks, achieve their goals, and assist organizations in the decision-making formations to avoid risks [1].

2.2. Company Value

Lencioni [6] argues that, also referred to as corporate value, a company's value con-sists of the philosophies, beliefs, and principles that drive a company's business. These values are instilled in the minds of all the company's employees and are used as guiding principles, which help employees to operate effectively to achieve a common goal [7]. Every successful corporation has solid values that most teams share and live by. According to a survey conducted to examine the business value, businesses with strong corporate values outperform in terms of financial success, employee and customer satisfaction, and growth rate. Furthermore, employees desire to work for firms that share their values [6]. Mission-driven organizations are growing in popularity. Practical corporate values can set a company ahead of its competitors by ensuring that its identity is clarified and serving as employees' rallying point [7].

3. Relationship Between Corporate Governance and Company Value

Lencioni [6] Argues that while developing solid corporate values is essential for all companies, sticking to these values can be a significant struggle. Bubbico and Shubita [5] warn that organizations considering value initiatives must understand that values can inflict significant pain when appropriately practiced. Establishing practical company values can also be difficult, as Nyuyen [2], because the principles must be tied to the objectives of the organization's stakeholders. This is why companies are forced to develop strong CG structures. A strong CG structure has emerged as an essential mechanism, given that it helps provide the company with the required strength to enhance its management accountability and maximize its value [6]. Most stakeholders and shareholders share a common belief that the value of a company is likely to increase when the company is better managed and can be administrated by adherence to CG standard practices, which are established under various regulating bodies such as Australia's Bosch Report and the Australian Security & Investments Commissions (ASIC) [2].

3.1. Corporate Governance and Business Ethical Operations

Lencioni [6] argues that while companies spend much effort to produce outstanding corporate values such as respect, communication, and integrity, most companies (for instance, Enron) corporate values are toothless, bland, and dishonest. An observation made by Lencioni [6] is that while a company's corporate values may be regarded as being harmless, they can be very destructive; given that value statements that are empty are likely to create employees that are dispirited and cynical, they can alien-ate customers, as well as undermine the credibility of the company's management. Empty corporate values have also proved to affect the reputation and prevent investors from trusting the company's operations.

One of the reasons why CG has emerged as an essential tool in maintaining a company's value is because it enables the company to practice what is stated in its corporate values statement. A well-structured CG will make the company's values have meaning mainly because the company operates under a well-defined set of rules and regulations visible to its shareholders, employees, customers, and other members of society. As a result, CG has emerged in Carroll's Pyramid of CSR and is regarded as one way for businesses to be regarded as entirely ethical entities. In Carroll's pyra-mid, creating an impactful CG can be regarded from a legal standpoint, where the business operates under some ground rules set up by foreign bodies such as ASIC, or from an ethical standpoint, where the company encompasses actions, norms, and standards that inhibit malpractices from occurring in the company [8].

3.2. Corporate Governance and Company Financial Performance

It is without a doubt that the value of a company can easily be affected by how the company's financial performance. In a study conducted in Jordan, Ilyukhin [9] found that a company's financial performance significantly impacts its value. Based on the results obtained from the study, Ilyukhin [9] recommended that the management of companies, stakeholders, and investors should be mainly concerned about employing appropriate indicators to ensure that the financial performance of companies is well examined. However, corporate governance can significantly affect the financial performance of companies. Several studies have already confirmed the strong relation-ship between corporate governance and the companies' financial performance. A study was conducted to examine corporate governance's impact on banks' financial performance in the MENA region during the covid-19 pandemic; for instance, El-Chaarani et al. [10] found that banks with effective corporate governance structures had a solid financial performance.

CFI [16] produced similar results in a study based in India. According to 16, corporate governance changes in India are now at a stage where. In contrast, the objectives behind the changes are excellent; the country desperately needs to look at the overall solution that could be used to address the difficulties that companies are facing. According to CFI [16], while there have been considerable advancements in the corporate governance systems used by Indian corporations, there has been a fall in the number of independent non-executive directors appointed to company boards. Concerning a company's financial performance, the board of directors plays an integral role in the corporate governance structure. In their study, for instance, El-Chaarani et al. [10] found that measures associated with corporate governance, particularly with the independence of the members of the director's board and legal protection that is significantly strong, can have a positive impact on the financial performance of banks. El-Chaarani et al. [10] discovered that throughout the recession, corporate governance processes such as performance compensation, female board representation, a reasonable board composition, and generally pro measures had no discernible impact on bank performance. In periods of outbreaks and crises, a practical internal and external corporate governance framework could improve the bank's financial results in MENA countries.

3.3. Corporate Governance and Investor Attraction

Investors are significantly attracted to companies with impressive corporate governance. This is because, for most investors, corporate governance helps develop a rules system and practices, which can determine how the company will operate and align with their interests [19]. Furthermore, corporate governance that is considered to be good leads the company to ethical business practices, which leads the company to financial viability [19]. To understand this concept, it is imperative to consider two companies in the contemporary world's business environment and how their corporate governance affects their relationship with investors. First, scandals have hit one with good corporate governance (Singapore Airlines) and that due to poor corporate governance (Freedom Foods).

Singapore Airlines Excellence Corporate Governance.

Duppati, Scrimgeour, and Stevenson [16] are concerned that from a global perspective, the airline industry has been plagued with poor performance in terms of travelers' confidence, attracting investors, and even in their sustainability efforts. However, Singapore Airlines has managed to excel in these areas due to its practical corporate governance framework. The Singapore corporate governance framework includes various board committees such as the audit, nomination, executive, safety, risk, and industrial relations committees [15]. However, contrary to that, the airlines have ensured that the roles of the Chairman and CEO are distinct, not related to each other, and are well-defined [17].

The airline's corporate policies include whistleblowing, which ensures that the company is doing the right thing, a supplier's code of conduct to guide the airline's behavior from its suppliers' operations, the environment, as well as social values, and a risk management framework, which is used to provide guidelines for reporting and managing all the risks associated with the airline's operations [17]. As a result, the airline was named one of the 2019 corporate governance winners in Asia and Australasia. In addition, the airline's CEO, Mr. Goh Choon Phong, was awarded the best airline industry CEO [18]. Impressive corporate governance has also helped Singapore Airlines to remain profitable in the past five years, mainly due to improvements in its corporate governance framework that have helped it attract more investors. Investors and shareholders have seen their returns double as concepts such as whistleblowing prevent the airline from conducting any unethical business [19].

Chia [21] argues that the whistleblowing aspect of Singapore Airlines seems to have helped the airline avoid unethical business practices such as employee slavery and providing investors with incorrect financial reports. In addition, service improvements have been positively affected by the impressive risk assessment framework, which the airline uses to highlight areas that continue to affect how it offers services to its customers, the sustainability of its operations, and provides better ways to improve its services [20].

Freedom Foods Accounting Scandal.

Freedom Food scandals clearly show how a poor corporate governance structure can affect the company's value. Freedom Foods, currently known as Noumi Limited, was under the microscope for financial malpractices such as migrant workers' exploitation and underpayment, as well as fraud in its accounting books, which led to the question of the role that the board of directors plays in the company [14]. The company does not have aspects such as whistleblowing in place, and there is no evidence that it has put in place mechanisms to control its suppliers' operations [13]. Whistle-blowers could have highlighted the company's misconduct, thus prevent them from taking place.

The company's operations at its Shepparton dairy were particularly criticized as most employees operating in this dairy were performing tasks that were not covered under their skilled workers' visa scheme, and their payment also did not reflect the amount of work they were forced to do [15]. Again, this clearly indicates a company without a poor employment structure and a company with poor leadership to oversee its operations.

Furthermore, the provision of financial accounts that were not true and fair to the company's shareholders and investors shows that the company does not have in place an influential audit committee [22]. The lack of a proper corporate governance poli-cy resulted in Noumi Foods being fined by the Victorian Supreme Court because of breaching the Australian Securities and Investments Commission (ASIC) Act, the Corporate Act, and the Australian Consumer Law [22]. Due to these scandals, Freedom Foods has seen its value drop significantly. For instance, the company has seen a significant number of investors withdrawing from the company [15].

4. Conclusion

This report's findings show a direct relationship between corporate governance and the company's value. Corporate governance helps set the rules and regulations the company must adhere to perform well in the market. Recent cases have also shown that corporate governance is not only associated with the financial value of the company, but it also plays an integral role in making the company

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responsible in the community. As such, a company that is regarded as the most valuable company is not the most profitable but also the company which is making efforts to ensure that its operations are sustainable.

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