

The Conceptual Framework of Corporate Governance and Its Importance from the Perspective of Auditors

Dr. Mohammed Saci FERDIA^{1*}, Pr. Aida KAMMOUN²

¹ University of Sfax, Faculty of Economics and Management, Department of Governance and Finance and Accounting, Sfax, Tunisia, ms.ferdia@gmail.com, ORCID: 0009-0003-2956-642X

² University of Sfax, Department of Management, Higher Institute of Business Administration, Tunisia. aida.kammoun@isaas.rnu.tn, ORCID: 0000-0002-8453-8558

Received: 18 /08/2024 • Published: 24/09/2024

ABSTRACT

The study examines the evolution of corporate governance and its critical role in enhancing institutional performance, particularly in the face of global economic challenges and financial crises. The research aimed to assess the level of attention auditors in Algeria give to corporate governance principles. A descriptive-analytical method was employed, gathering and analyzing data from a sample of auditors and accountants. Data collection was carried out through questionnaires, which were subsequently analyzed using SPSS software to ensure accuracy. The results indicated a significant interest in corporate governance principles among auditors, with a positive correlation between this interest and the effectiveness of governance implementation within companies. The study concludes that the activation of corporate governance principles significantly improves institutional performance, increases investor and stakeholder confidence, and contributes to the long-term sustainability of companies. The study recommends strengthening the application of governance principles to ensure transparency and accountability in corporate management.

Keywords

Auditors; Corporate compliance; Corporate governance; Effectiveness; Transparency.

Introduction

In recent years, there has been a growing interest in the concept of corporate governance due to global economic transformations and successive financial crises that have exposed significant gaps in the management of large corporations. With the rise of financial scandals and the failure of many major companies, it has become evident that there is an urgent need to reconsider how companies are managed and how their performance is monitored to ensure sustainability and bolster investor confidence. In this context, corporate governance has emerged as a fundamental tool aimed at promoting transparency and accountability, reducing conflicts of interest between shareholders and management, and thereby improving overall institutional performance.

Corporate governance plays a pivotal role in defining the relationships among various parties within a company, including shareholders, the board of directors, and executive managers. These relationships require careful regulation to ensure that all parties work harmoniously toward common goals while protecting shareholders' rights and advancing the company's long-term interests.

As business complexities increase and the challenges facing companies become more diverse, the principles of corporate governance have become more critical than ever. These principles not only provide a regulatory framework for companies but also extend to fostering a corporate culture built on ethical values, transparency, and accountability. In this context, the role of auditors stands out as independent supervisory entities that help ensure companies' adherence to these principles and assess their effectiveness in achieving their objectives.

Despite the growing attention to corporate governance, questions remain about the extent to which companies adhere to these principles and the degree to which auditors consider them in their evaluations. Are these principles truly effective in enhancing institutional performance? And do auditors reflect this attention in their practices and assessments?

In light of the growing global trend toward reinforcing corporate governance principles and achieving transparency and accountability within institutions, a key issue arises regarding the extent to which auditors are aware of and concerned with these principles, and how this influences their assessment of company performance. Thus, the problem can be formulated as follows: To what extent does the auditors' attention to

corporate governance principles reflect the role of these principles in enhancing institutional performance and achieving the strategic objectives of companies?

Sub-questions:

what extent are auditors concerned with the various corporate governance principles in their work?

Is there a relationship between the level of auditors' attention to governance principles and the effectiveness of these principles' implementation in companies?

Hypotheses:

- We expect a high level of attention to corporate governance principles.
- We expect a high significance attributed to corporate governance and all its dimensions from the perspective of the respondents.

1- The Emergence and Development of the Concept of Governance

Adam Smith's predictions in his book *"The Wealth of Nations"* (1776) were the first indication of the emergence of corporate governance, as he pointed to the inefficiency of joint-stock companies managed by individuals who do not own them. He argued that managers, handling other people's money, might engage in neglect or misconduct in managing these companies (Michael C. Jensen and William H. Meckling, January 1976, P1). However, this issue did not gain much attention at the time until the concept began to emerge after financial crises and scandals involving major companies during industrial development.

Economic literature on corporate governance suggests that American economists A. Berle and G. Means were among the first to address the separation of ownership from management, as reflected in their agency theory in their book *"The Modern Corporation and Private Property"* (1932). They proposed that corporate governance principles could bridge the gap between managers and owners, helping mitigate the negative practices that could harm companies and industries as a whole (Talib Ala' Farhan and Iman Shiha Al-Mashhadani, 2011, p. 5).

This marked the beginning of numerous studies on the relationship between managers and stakeholders in joint-stock companies, leading to the development of various management theories in this field. One of these studies was conducted by H. Demsetz and A.A. Alchain in 1972, where they questioned the mechanisms that could govern companies to address the collective action problems within these organizations (Ashouri Abdel Nasser, 2016, p. 6).

One of the most notable management theories that contributed to the development of corporate governance was the agency theory introduced by Jensen and Meckling in 1976. This theory emphasized the need to regulate the relationship between owners and management, clarifying the duties and responsibilities of each party (Boufasa Suleiman et al., 2013, p. 4). It proposed a contract between the two parties—principal and agent—where shareholders own the capital, and decision-making and management are entrusted to the managers. These contracts obligate managers to work in the shareholders' best interests, increasing their wealth and creating value in exchange for salaries and benefits (Michael C. Jensen and William H. Meckling, January 1976, P1). Despite the solutions offered by this theory to reduce the conflict between owners and managers, the lingering issue was how to draft a comprehensive contract that covered all future scenarios concerning the rights and duties of both parties. In other words, what should shareholders do when facing unforeseen events not included in the contract (Juma'a Mohammed Al-Raqeebi, 2010, p. 2)? These questions paved the way for further studies and research, concluding that solving the agency problem requires more regulations, laws, and restrictions, along with strengthening the ethical and motivational aspects of management.

The significant development that accompanied the industrial revolution, the emergence of large multinational corporations, the separation of ownership from management, and the expansion of industrial joint-stock companies' operations led to occasional conflicts between management and shareholders. While concepts such as disclosure, transparency, and governance were present, they did not receive sufficient

attention. In the aftermath of global financial crises that affected financial markets worldwide, corporate governance became a prominent concept. Following consecutive financial scandals in American companies and the findings of numerous investigations, legislative and legal bodies identified the causes behind the failure of financial oversight in many American companies, including instances of bribery. This led to the introduction of the Foreign Corrupt Practices Act in 1977 in the United States, which outlined specific rules for drafting and reviewing internal control systems in companies. Following this, the U.S. Securities and Exchange Commission introduced recommendations for regulating disclosure related to financial control systems. In 1985, after several financial collapses in the savings and loans sector, the Treadway Commission was established with the primary role of identifying the root causes of misrepresentation in financial reports and providing recommendations to mitigate such occurrences. Its 1987 report emphasized the necessity of establishing a sound control environment, independent audit committees, and more objective internal auditing, along with the need for disclosure regarding the effectiveness of internal controls.

Corporate governance also gained attention in the United Kingdom through the Cadbury Committee, formed by the Financial Reporting Council and the London Stock Exchange in December 1992. The committee issued a report titled *"The Financial Aspects of Corporate Governance"*, urging the adoption of corporate governance principles following growing allegations of a lack of trust and transparency in financial reports by shareholders in the London Stock Exchange (Mohammed Jamil Haboush, 2007, p. 22).

Moreover, the concept of corporate governance gained increasing attention through the efforts of several international institutions, including the International Monetary Fund and the World Bank, the Center for International Private Enterprise, and the Organization for Economic Cooperation and Development (OECD). In 1999, the OECD issued *"Principles of Corporate Governance"*, aimed at helping both member and non-member countries develop the legal and institutional frameworks necessary to apply corporate governance in both public and private companies. The five principles issued in 1999 by the OECD focused on protecting shareholders' rights, ensuring equitable treatment of shareholders, promoting the role of stakeholders, encouraging transparency, and emphasizing the responsibility of the board of directors. In 2004, the OECD issued a revised list of corporate governance principles, adding an indicator to ensure the foundations of an effective corporate governance framework (Adnan Bin Haidar Bin Darwish, 2007, p. 25). The stages of the development and clarification of corporate governance can be summarized as follows (Adnan Bin Haidar Bin Darwish, 2007, pp. 15-17):

Up to the Depression Era (post-1932) during this period, the deep gap between management and owners and the conflict of interests began to be recognized.

The emergence of agency theory and relationship regulation (1976 - 1990) during this stage, writings appeared concerning the regulation of the relationships between owners and management through agency theory, emphasizing the need to define the duties and responsibilities of both management and owners.

Increased focus on governance (early 1990s) the World Trade Organization began setting standards to help companies adhere to governance principles, achieving growth, stability, and enhancing their competitive capabilities in cross-border operations.

The beginning of governance reform (1996-2000) this phase resulted from accumulated studies indicating the reasons behind corporate collapses, failures to meet objectives, poor management practices, and the misuse or wastage of resources. This led the World Trade Organization to focus on formulating general governance principles.

- a. OECD issued a set of general governance principles.
- b. On the basis of previously established standards by various organizations, multiple institutions and professional associations, most of which are accounting-related, worked on setting standards to achieve governance goals.
- c. The phase of emphasizing the inevitability of governance (2001-2004) This period focused on the evident cases of failure, ethical and value corruption, and financial and investment scandals in many companies and institutions.

d. With the successive economic crises and the collapse of many giant corporations, the World Bank also became interested in governance. It supported institutions, committees, bodies, and institutes to adopt governance practices and issue a set of guidelines and regulations for applying and activating governance.

2- Definition of Corporate Governance

Scholars, economists, and practitioners have varied in their perspectives when defining corporate governance. There is no universally agreed-upon definition of corporate governance, due to the multiple meanings associated with the term "governance." In this section, we will attempt to present the most widely accepted definitions, both linguistically and technically.

a. Definition of Corporate Governance Linguistically:

The term "governance" is a relatively new concept that has gained regional and international prominence. It is the Arabic translation of the English term "Governance." Since it is a modern term, it is a combination of various concepts that together form what is known as governance. Some of these concepts include (Alaa Farhan Talib, Iman Shihan Al-Mashhadani, 2011, p. 24):

- **Wisdom:** Which entails guidance and direction.
- **Judgment:** Which involves controlling matters by establishing regulations and restrictions that govern behavior.
- **Arbitration:** Which requires turning to ethical and cultural norms as well as the experiences gained from previous trials.
- **Litigation:** Seeking justice, especially when authority deviates and manipulates shareholders' interests.

As for "corporate governance," it is the Arabic translation of the English term "Corporate Governance." This translation is the result of extensive consultations between language experts on one side, and economic and legal experts on the other. Other translations for the same term have emerged, such as "wise management," "good management," "institutional control," "institutional governance," and others. However, the most commonly used term among economists, writers, and researchers is "corporate governance" or "institutional governance."

b. Definition of Corporate Governance Terminologically:

It is important to note that there is no universally agreed-upon or self-sufficient definition of corporate governance globally. This is due to the varying legislations and practices related to corporate activities. Given the increasing attention to corporate governance, many international institutions have analyzed and studied this concept. From these studies, we can mention the following definitions:

- **According to the Charter of Good Corporate Governance in Algeria** (Charter of Good Corporate Governance in Algeria, 2009, p.16), corporate governance is defined as a management philosophy and a set of practical measures aimed simultaneously at ensuring the sustainability and competitiveness of the organization by:
 - Defining the rights and duties of the key players in the organization;
 - Sharing the resulting powers and responsibilities.
- **The International Finance Corporation (IFC)** defines corporate governance as a set of structures and processes necessary for directing and controlling companies, determining the distribution of rights and responsibilities among the main participants in the company, including shareholders, board members, and managers, as well as setting the rules and procedures for decision-making on corporate matters (Hakim Mohsen Al-Rubaie, Hamad Abdul Hussain Radi, 2011, p.25).
- **The Organization for Economic Cooperation and Development (OECD)** defines corporate governance as the set of relationships between the company's management, its board, its shareholders, and other stakeholders. It provides a framework for setting the company's objectives, the means for achieving them, and the mechanisms for monitoring performance (OECD Principles of Corporate Governance, Paris, April 2004, p.11).

- **The Qatar Financial Markets Authority (QFMA)** defines corporate governance as the system by which a company is managed and controlled. It establishes the principles and rules for distributing rights and responsibilities among various stakeholders, such as board members, managers, shareholders, and other stakeholders. It also outlines the rules and procedures for decision-making regarding the company's affairs (QFMA, November 10, 2016, p.6).
- **The Institute of Internal Auditors (IIA)** defines corporate governance as the processes through which stakeholders' representatives oversee and manage risks, monitor organizational risks, and ensure the adequacy of control measures to avoid those risks. This directly contributes to achieving the company's objectives and preserving its value (Mustafa Youssef Al-Kafi, 1st edition, 2013, p.206).

Based on these definitions, we can define corporate governance as a set of rules, principles, and laws that regulate all relationships within a company. It aims to increase transparency and disclosure, protect stakeholders' rights, and establish the necessary rules and procedures for decision-making within the company. This helps in monitoring performance efficiency, combating administrative and financial corruption, maximizing the company's value, strengthening its competitive position, and facilitating access to funding sources.

3- Objectives of Corporate Governance:

Economic entities across the world aim to implement corporate governance and establish the necessary legislation for its application. This is done to achieve several goals resulting from the proper application of corporate governance, which can be summarized as follows:

- Corporate governance aims to ensure transparency, fairness, and accountability of company management, thereby protecting shareholders and all stakeholders. It considers the interests of businesses and employees, limits the misuse of authority for purposes other than the public interest, promotes investment growth, encourages the flow of investments, enhances savings, maximizes profitability, and creates new job opportunities. It also protects shareholders' rights, both majority and minority, and maximizes their returns.
- Improving and developing corporate management by helping managers and the board of directors build a sound strategy and ensure that decisions related to mergers or acquisitions are made on a solid foundation, which improves the company's administrative and financial efficiency.
- Separating the management from the company owners to assist in decision-making independence, which helps reduce conflicts of interest between management and owners. Corporate governance reinforces this separation by introducing non-executive directors to the board of directors, individuals who neither work for the company nor own shares in it. This ensures their independence from the interests of both owners and management, allowing them to participate in formulating the company's strategies and monitoring the board members to protect the beneficiaries' rights (Amer bin Mohammed Al-Husseini, *The Role of Corporate Governance and Investment Institutions in Improving Economic Systems*, Economic Newspaper, 2008).
- Increasing the management's ability to motivate employees, improving labor turnover rates, and stabilizing the workforce (Mohammed Mustafa Suleiman, 2006, p.25).
- Monitoring and revising the laws governing corporate performance, so that the responsibility for oversight lies with both the board of directors and shareholders, represented in the company's general assembly.
- Preventing the misuse of available powers for unlawful gains and the exploitation of the company's and shareholders' interests (Adnan Bin Haidar Bin Darwish, 2007, p.33).
- Enhancing corporate management by helping managers and the board of directors develop a sound corporate strategy and ensuring that merger and acquisition decisions are based on solid grounds (Establishing Corporate Governance in Emerging Markets, CIPE, 2005, p.6).
- Achieving long-term competitiveness, which encourages the adoption of modern technologies to improve product quality, reduce production costs, and increase the marketability of goods and services,

enabling the company to withstand strong foreign competition (Raafat Hussein Muteer, Islamic University, p.2).

- Building trust among stakeholders and enabling financial and institutional investors to access genuine monitoring tools for managing their distributed assets, such as portfolios and companies (Baden Abdel Qader, 2008, p.10).
- Reducing financial and investment risks, increasing confidence in the national economy, and encouraging the attraction of local and international capital flows.
- Preserving the company's economic reputation by deepening the culture of adherence to professional ethics, compliance with laws, principles, regulations, and agreed-upon standards (Atzad Saeed Qotb Hassanein, 2009, p.17).
- Corporate adherence to the principles of governance helps avoid national economic crises (Al-Hussein Othmani, Souad Shaabani, May 6-7, 2012, p.12).

By protecting rights, corporate governance aims to maximize the interests of various stakeholders in the organization, including owners, lenders, management, employees, and others. Therefore, governance seeks to maximize the overall value of the organization, even though it may initially appear to focus on protecting investors. In the long run, the interests of different parties align. Corporate governance plays its role by structuring the relationships and roles among these stakeholders (Ahmed Ashraf Abdel Hamid, Governance and Published Financial Reports of Egyptian Companies, Journal of Contemporary Commercial Research, Faculty of Commerce in Sohag, South Valley University, Vol. 16, No. 2, December 2002, p.227).

4- Advantages of Corporate Governance (Alexander Shkolnikov, 2009/03/16, p.6)

- **Transparency:** Good governance provides organizations with mechanisms to establish transparency at various levels. First and foremost, it ensures transparency in decision-making, including leadership elections and the deliberation of strategic and operational decisions. Transparency is particularly important in managing resources—both financial and human—allowing well-governed organizations to utilize these resources more effectively in fulfilling their entrusted responsibilities, with transparency toward their members.
- **Building Mission-Driven Organizations:** Good governance is essential in guiding an organization's leadership to define its overall purpose and ensure a continued focus on its core mission in all operations.
- **Ability to Attract and Retain Competent Employees:** Non-governmental organizations (NGOs) in emerging markets and business associations are no exception to the challenge of retaining highly qualified employees who can find higher-paying jobs in the private sector. However, with better governance standards, these organizations can offer employees better opportunities for career growth and development.
- **Proper Focus on Strategic Issues:** The survival of an organization depends on its ability to identify pressing issues and position itself as a leader in addressing these concerns. In other words, successful organizations stay connected with their members in any economic climate and offer solutions to their problems. The ability to identify urgent issues is directly related to the organization's governance structures. If too much of the governance capacity is spent on internal management, this will come at the expense of dedicating adequate time and attention to identifying key issues and developing an appropriate response strategy.
- **Credibility in Promoting Democratic and Economic Reforms:** Associations play a crucial role in public advocacy and support for policy changes. To be credible advocates for private sector issues, associations themselves must be well-governed. Ensuring that associations represent the views of all their members (and not just a select few) enhances governance as a public declaration by associations to turn words into action when addressing democratic reform, corporate governance, and other issues.

5- The Key Determinants of Corporate Governance

The full effectiveness of corporate governance requires certain conditions to be met in order to achieve an effective application of corporate governance and fully benefit from its advantages. These conditions are

referred to as the key determinants of corporate governance. They are divided into two categories: internal and external determinants. The absence of any of these determinants can negatively impact the effectiveness of corporate governance.

a. External Determinants (Samiha Fawzy, *Assessment of Corporate Governance in Egypt, The Egyptian Center for Economic Studies, Working Paper No. 82, August 2003, p. 04*):

External determinants of corporate governance refer to the environment in which a company operates. This environment differs from one company to another and from one country to another. These determinants include:

- Laws and regulations governing market activities, such as corporate laws, financial market laws, bankruptcy laws, and competition laws that aim to prevent monopolies.
- The existence of a sound financial system that ensures the necessary financing for projects in a way that encourages companies to expand and compete internationally.
- The efficiency of regulatory bodies, such as financial market authorities and stock exchanges, which ensure strict oversight of companies, verify the accuracy and integrity of published data, and impose appropriate penalties for non-compliance.
- The role of non-governmental organizations (NGOs) in ensuring that their members adhere to ethical, professional, and behavioral standards that ensure the market functions efficiently. Examples include associations of accountants, auditors, and bar associations.
- Social and political stability, along with society's belief, particularly at the leadership level, in values and principles that align with the nature of corporate governance.
- The desire for globalization, integration into the global economy, and efforts to liberalize foreign trade and attract global investments.

The importance of external determinants lies in ensuring the enforcement of laws and regulations that guarantee sound corporate management, thereby reducing the conflict between social and private returns.

b. Internal Determinants (Samiha Fawzy, August 2003, p. 04):

Internal determinants include the rules and methods applied within the company to ensure sound management structures that clarify how decisions are made, and the appropriate distribution of powers and duties among the parties involved in implementing corporate governance, such as the board of directors, shareholders, and stakeholders. While these determinants may seem like constraints on governance, they are, in fact, controls to ensure the effective application of corporate governance.

It is important to note that these determinants, whether internal or external, are influenced by a range of other factors related to the political and economic system of the country, the level of education and awareness among individuals, and others. Corporate governance is merely part of the larger economic environment within which companies operate. Furthermore, the framework of corporate governance also relies on the legal, regulatory, and institutional environment, as well as factors such as business ethics and the extent to which companies recognize the environmental and social interests of the communities in which they operate. These factors can significantly affect the company's reputation and long-term success (Mohammed Mustafa Suleiman, 2009, p. 24).

6- The Importance of Corporate Governance

Corporate governance has recently garnered significant attention from researchers and economists, particularly in light of the economic collapses and financial crises that have affected global markets, especially in Southeast Asia and Latin America. These crises were caused by administrative failures, manipulation of financial statements, excessive profit inflation, the pursuit of quick profits, and the failure to adhere to professional and ethical standards. This resulted in the bankruptcy and financial distress of major

corporations, which severely harmed investors and capital owners, and even led to the collapse of some national economies.

Thus, the importance of corporate governance lies in its role as an economic solution to mitigate the challenges faced by global economies, companies, and shareholders. The significance of corporate governance can be detailed as follows:

Importance of Governance for Companies: Adopting a governance system is one of the key pillars to ensure the sustainability, stability, and improved performance of companies, ultimately helping them achieve their goals. The importance of corporate governance for companies can be detailed in the following points:

- Proper application of governance rules facilitates access to financing at a lower cost. Companies' adherence to governance principles reassures investors about their funds, encouraging them to invest in the company's offerings, whether through equity financing (e.g., capital increases) or debt financing (e.g., bonds). As a result, companies can secure funding without incurring significant costs. Additionally, the stock prices of well-governed companies tend to receive higher valuations, benefiting the company overall (International Finance Corporation "IFC," Consultation Date: 19/05/2020, p.1).
- Corporate governance enhances the managerial and economic efficiency of companies by promoting sound management practices and encouraging the adoption of modern administrative techniques. Governance also establishes the foundations for relationships between the company's directors, board members, and shareholders, which positively impacts the company's performance, efficiency, and profitability, or at least reduces potential risks (Boufasa Suleiman et al., 19-20 November 2013, p.4).
- It provides the organizational framework through which the company's goals can be defined and achieved by offering appropriate incentives to board members and executives to work toward the company's objectives, considering shareholders' interests (Abdul Wahab Nasr Ali Shehata, 2007, p.23).

Importance of Corporate Governance for Shareholders and Other Stakeholders:

- It helps ensure the rights of all shareholders, such as voting rights and the right to participate in decisions regarding any significant changes that may affect the company's future performance.
- Full disclosure of the company's performance, financial status, and key decisions made by top management helps shareholders assess the risks associated with investing in these companies (Corporate Governance, 2009, pp. 5-6).
- It ensures a reasonable level of confidence for investors and shareholders regarding achieving appropriate returns on their investments, while safeguarding their rights, particularly those of minority shareholders.
- Corporate governance promotes fairness, transparency, and equitable treatment for all parties, including shareholders, investors, and other stakeholders, building trust in the company and fostering its growth. Through its laws and procedures, corporate governance aims to ensure that companies operate according to the provisions outlined in their internal regulations and legislative frameworks (Dadan Abdul Wahab et al., 25-26 November 2013, p.3).

7- Stakeholders Involved in Corporate Governance Implementation

There are four main parties that both affect and are affected by the proper implementation of corporate governance rules. These parties play a significant role in determining the success or failure of governance practices. These stakeholders are (Amin Al-Sayed Ahmed Lotfi, 2005, p.696):

1. Shareholders

Shareholders provide the company with capital through their ownership of shares and seek to maximize the company's long-term value, which determines its sustainability, in exchange for receiving appropriate returns on their investments. They have the right to elect suitable board members to protect their rights. However, if shareholders do not receive satisfactory returns, their desire to expand the company's activities may decline, affecting the company's future.

2. Board of Directors

The board selects the executive managers who are entrusted with the day-to-day management of the company's operations. The board sets general policies and oversees the protection of shareholders' rights, while also monitoring the performance of management. Global governance principles have highlighted two types of duties for board members:

Duty of Care: The board must be vigilant, cautious, and diligent in making decisions. The company must have adequate and sound procedures and systems in place, and it should comply with relevant laws, regulations, and guidelines.

Duty of Loyalty: The corporate governance framework ensures strategic direction for the company, effective oversight, and accountability of management toward the company and its shareholders. The board must act based on comprehensive information, in the best interest of the company and its shareholders, treating all shareholders equally and ensuring timely access to accurate and important information.

3. Management

Management is responsible for reporting on the company's effective performance to the board of directors. Management is also tasked with maximizing the company's profits and increasing its value. Additionally, management is accountable for transparency and disclosure of information to shareholders. Serving as the link between the board and other stakeholders, management plays a critical role in executing the shareholders' and board's objectives. Therefore, it is essential to carefully select members of management, as they implement the desires of the shareholders and the board of directors. To ensure management fulfills its duties, the board must establish mechanisms to monitor their performance, compare actual performance against set goals, and create necessary contingency plans.

4. Stakeholders

Stakeholders are a group of parties with interests within the company, such as creditors, suppliers, employees, and workers. Sometimes, these parties' interests may conflict. Corporate governance is significantly influenced by the relationships between these stakeholders, who are crucial to the company's operational success. They are the ones performing the tasks that enable the company to produce goods and services. Without them, neither management nor the board of directors and shareholders can achieve the company's strategies. Customers purchase the product or service, suppliers provide the company with raw materials, and financiers offer credit facilities. Therefore, it is crucial to handle these parties with care and precision, as misleading information to financiers could disrupt funding plans, negatively affecting the company's future planning.

8- Principles of Corporate Governance

Given the increasing focus on the concept of corporate governance, many international organizations have taken an active role in studying, analysing, and establishing a set of principles, rules, and standards for corporate governance. Some of the leading international organizations in this field include the World Bank, the International Monetary Fund (IMF), the Bank for International Settlements (BIS) through the Basel Committee, the International Organization of Securities Commissions (IOSCO), the New York Stock Exchange, the Cadbury Commission, the King Committee, the Viento Commission, and the Organization for Economic Cooperation and Development (OECD).

Although several organizations have issued principles on corporate governance, the most widely accepted and influential are the principles issued by the OECD in 1999 and revised in 2004. These principles form the foundation used by many countries worldwide due to their global relevance and flexibility in application, considering varying environmental conditions. The OECD principles consist of six main elements, which can be summarized as follows (OECD, Principles of Corporate Governance, 2004, pp. 17-25):

1. Ensuring the Foundation for an Effective Corporate Governance Framework: When creating a corporate governance framework, the goal is to enhance transparency and financial market efficiency in line with the law, clearly defining responsibilities among the various oversight and supervisory bodies. This principle is achieved through the following actions:

- a. Establishing a corporate governance framework to positively impact overall economic performance, market integrity, and the incentives it creates for market participants, encouraging transparent and efficient markets.
- b. Legal and regulatory requirements that influence corporate governance practices within a specific jurisdiction must be compatible with the rule of law, transparent, and enforceable.
- c. The distribution of responsibilities among different bodies within a specific jurisdiction must be clearly defined while ensuring that the public interest is served.
- d. Supervisory, regulatory, and enforcement authorities must have the power, integrity, and resources to perform their duties professionally and objectively. Their decisions and judgments must be timely, transparent, and fully explained.

2. Shareholder Rights and Key Ownership Functions: This principle aims to ensure that the corporate governance framework protects and facilitates the exercise of shareholders' rights, including:

- a. Shareholders' basic rights include (secure methods for ownership registration; the transfer of shares; timely and regular access to relevant and material company information; participation and voting in general shareholder meetings; election and removal of board members, shares in the company's profits).
- b. Shareholders should have the right to participate in and be sufficiently informed about decisions concerning fundamental corporate changes, such as (amendments to the company's charter or articles of incorporation; authorization of additional shares; extraordinary transactions, including the transfer of all or nearly all assets, which effectively result in the sale of the company).
- c. Shareholders must be able to participate effectively and vote in general shareholder meetings, with clear information about the rules and procedures governing such meetings, including voting procedures.
- d. Disclosure of capital structures and arrangements that enable certain shareholders to exercise control disproportionate to their ownership must be ensured.
- e. The rules and procedures governing the acquisition of corporate control in financial markets must be clearly defined to allow markets to function transparently and efficiently, ensuring investors understand their rights and legal recourse.
- f. The exercise of ownership rights should be facilitated for all shareholders, including institutional investors, who should act as agents and disclose corporate governance.
- g. Shareholders, including institutional investors, should be allowed to consult with each other on issues related to basic shareholder rights as defined in the principles, while considering exceptions to prevent misuse.

3. Equal Treatment of Shareholders: The corporate governance framework should ensure fair treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity for effective redress if their rights are violated.

- a) All shareholders in the same class should be treated equally. Within any class, all shares must carry the same rights, and investors should be able to access information about the rights associated with all series and classes of shares before purchasing them. Changes in voting rights should be subject to approval by the negatively affected classes of shareholders.
- b) Minority shareholders should be protected from abusive actions by, or in the interest of, controlling shareholders acting directly or indirectly. They should have effective means of redress.
- c) Procedures and processes for general shareholder meetings must allow fair treatment of all shareholders. The company should not make voting excessively difficult or costly.
- d) Insider trading and abusive self-dealing should be prohibited.
- e) Board members and key executives must disclose any material interests, either directly or indirectly or on behalf of third parties, in any transaction or matter that affects the company.

4. The Role of Stakeholders in Corporate Governance: The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active

cooperation between corporations and stakeholders in wealth creation, job creation, and maintaining financially sound enterprises. This includes:

- a) Respecting the rights of stakeholders as established by law or through mutual agreements.
- b) Providing stakeholders with the opportunity for effective redress for violations of their rights if these are protected by law.
- c) Encouraging mechanisms for employee participation to improve performance.
- d) When stakeholders participate in corporate governance processes, they should have access to relevant, sufficient, and reliable information in a timely and regular manner.
- e) Stakeholders, including employees and their representative bodies, should be able to freely communicate their concerns about illegal or unethical practices to the board, and their rights to do so should be protected.
- f) The corporate governance framework should be complemented by an efficient and effective insolvency framework, as well as the effective enforcement of creditor rights.

5. Disclosure and Transparency: The corporate governance framework should ensure accurate and timely disclosure of all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company. This includes:

- a) Disclosure of material information, including but not limited to:
 - Financial and operating results of the company;
 - Company objectives;
 - Major share ownership and voting rights;
 - Remuneration policy for board members and key executives, and information about board members, including their qualifications, selection process, other directorships, and whether they are considered independent;
 - Related party transactions;
 - Foreseeable risk factors;
 - Issues regarding employees and other stakeholders;
 - Governance structures and policies, particularly the content of any corporate governance code or policy and the process by which it is implemented.
- b) Information should be prepared and disclosed in accordance with high-quality accounting and financial and non-financial disclosure standards.
- c) An annual audit should be conducted by an independent, competent, and qualified auditor to provide an external and objective assurance to the board and shareholders that the financial statements fairly represent the financial position and performance of the company in all material respects.
- d) External auditors should be accountable to shareholders and owe a duty to the company to exercise due professional care in the conduct of the audit.
- e) Channels for disseminating information should provide for equal, timely, and cost-effective access to relevant information by users.
- f) The corporate governance framework should be complemented by an effective approach that addresses and promotes the provision of analysis or advice by analysts, brokers, rating agencies, and others, relating to investment decisions, and free from material conflicts of interest that might compromise the integrity of their analysis or advice.

6. Responsibilities of the Board:

The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and shareholders. This includes:

- a) Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and its shareholders.
- b) When decisions of the board may affect different shareholder groups differently, the board should treat all shareholders fairly.
- c) The board should apply high ethical standards and take into account the interests of stakeholders.
- d) The board should fulfill certain key functions, including:

- Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets, and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions, and divestitures;
 - Monitoring the effectiveness of the company's governance practices and making changes as needed;
 - Selecting, compensating, monitoring, and, when necessary, replacing key executives and overseeing succession planning;
 - Aligning key executive and board remuneration with the long-term interests of the company and its shareholders;
 - Ensuring a formal and transparent board nomination and election process;
 - Monitoring and managing potential conflicts of interest of management, board members, and shareholders, including the misuse of corporate assets and abuse in related-party transactions.
- e) The board should be able to exercise objective and independent judgment on corporate affairs.
- f) To fulfill their responsibilities, board members should have access to accurate, relevant, and timely information.

II-Methods and tools

The study included a group of state-certified auditors and accounting experts from Algeria. A total of 30 paper questionnaires were distributed, and 345 electronic questionnaires were sent via professional email. We obtained 30 valid paper questionnaires and 81 valid electronic questionnaires, yielding a total sample of 111 valid responses for the study.

The descriptive, analytical, and statistical methods were used to collect and analyze the data and evaluate the role of internal control in corporate governance. Both EXCEL and SPSS programs were utilized to ensure the accuracy of the analysis. Cronbach's Alpha was calculated to measure the reliability of the tool, and correlation coefficients were used to assess the internal validity of the questionnaire.

In the study, descriptive statistics were employed to calculate the arithmetic mean and standard deviation. T-tests for independent samples and the Wilcoxon test were used to verify statistical differences. The tests also included Kolmogorov-Smirnov and Shapiro tests to check data distribution, and the Mann-Whitney test was applied to examine post-hoc differences. Spearman's correlation coefficient was used to study the relationship between variables. The stepwise multiple regression equation was used to analyse the impact between the study variables.

Results and Discussion:

The results from the respondents' answers regarding the level of attention to the principles of corporate governance, measured using the five-point Likert scale, indicate a neutral tendency with a mean of 3.363, a standard deviation of 0.641, and an approval rate of 32%. All the dimensions within this axis ranged between a minimum mean of 3.248 with a standard deviation of 0.781 and a maximum mean of 3.574 with a standard deviation of 0.789, with approval rates between 31% and 34%. This shows that the neutral tendency in the first four dimensions influenced the overall direction of the axis. Nevertheless, this neutrality is considered positive neutrality.

Thus, the first hypothesis, which states: "We expect a high level of interest in the dimensions of corporate governance principles," has been confirmed. This hypothesis was verified through the five-point Likert scale, as demonstrated by the statistical results, with an approval rate of 32%.

According to the results of the Wilcoxon test for the dimensions of the first axis, *Effectiveness of the Internal Control System*, the statistical results for corporate governance principles, measured using the five-point Likert scale, point to a neutral tendency with a mean of 3.363, a standard deviation of 0.641, and an approval rate of 32%. All dimensions within this axis ranged between a minimum mean of 3.248 with a standard deviation of 0.781 and a maximum mean of 3.574 with a standard deviation of 0.789, with approval rates ranging between 31% and 34%. This neutral tendency in the first four dimensions affected the overall trend of the axis. However, this neutrality is still considered positive.

From this, we conclude that the second hypothesis, which states: "We expect a high level of significance for corporate governance and all its dimensions from the respondents' perspective," is also valid. There is a very high level of importance attributed to corporate governance and its dimensions from the respondents' perspective, with an approval rate of 50%.

Conclusion

The study explored the emergence and evolution of the concept of corporate governance, starting with the early theories proposed by Adam Smith in the 18th century, which addressed the challenges associated with companies being managed by non-owners. The concept of corporate governance has since developed into a central focus, particularly in response to financial crises and scandals affecting major corporations. The study emphasized various theoretical frameworks, especially the agency theory introduced by Jensen and Meckling in 1976, which highlighted the need to regulate the relationship between owners and management through clear contracts that protect shareholders' interests and promote transparency and accountability.

The key objectives of corporate governance were examined, including the protection of shareholders' rights, improvement of managerial performance, and reduction of conflicts of interest between management and owners. The study also analysed the fundamental principles of corporate governance as outlined by international organizations such as the Organization for Economic Cooperation and Development (OECD), which established a comprehensive framework for effectively applying these principles.

The results from the data analysis, based on questionnaires completed by auditors and accountants, revealed a high level of interest in corporate governance principles. On the five-point Likert scale, the results indicated a positive inclination, reflecting a general appreciation of the importance of these principles in ensuring the sustainability and growth of companies. The mean scores ranged between 3.248 and 3.574, reflecting some variation in the recognition of the importance of governance principles. However, the overall trend pointed to an increasing awareness of the role of governance in improving institutional performance.

In response to the sub-questions, the study showed that auditors place significant emphasis on corporate governance principles, and this attention is reflected in their evaluations of corporate performance. The study also demonstrated a positive relationship between the level of auditors' focus on governance principles and the effectiveness of their application within companies.

As a result, the study confirmed the validity of the proposed hypotheses, indicating that strengthening and implementing corporate governance principles is an urgent necessity for improving institutional performance and increasing investor and stakeholder confidence over the long term.

References

1. Hassanein, A. S. Q. (2009). **Integration of accounting and non-accounting mechanisms for governance systems and its impact on performance and reducing the expectation gap of the fair value of the enterprise: A case study on the Saudi stock market.** *Journal of Commerce for Scientific Research*, 46(01). Alexandria University.
2. Othmani, A., & Shaabani, S. (2012, May 6-7). **The financial and accounting system as a requirement for corporate governance and its impact on the Algerian stock exchange.** Paper presented at the National Conference on Corporate Governance as a Mechanism to Reduce Financial and Administrative Corruption, University of Mohamed Khider, Biskra, Algeria.
3. Abdel Hamid, A. A. (2002, December). **Corporate governance and published financial reports of Egyptian companies.** *Journal of Contemporary Commercial Research*, Faculty of Commerce, Sohag University, South Valley University, 16(2).
4. Shkolnikov, A. (2009, March 16). **Building successful business associations: Why is governance important for business associations?** Center for International Private Enterprise (CIPE).
5. Lotfi, A. E. A. (2005). **International auditing and the globalization of capital markets.** University Publishing House.

6. Abdelkader, B. (2008). **The role of corporate governance in the banking system in reducing banking financial crises.** Master's thesis, Hassiba Ben Bouali University, Chlef, Algeria.
7. Suleiman, B., et al. (2013, November 19-20). **The internal audit committee as an approach to activate corporate governance principles and improve performance.** Paper presented at the 8th International Conference on the Role of Governance in Enhancing Institutional and Economic Performance, Hassiba Ben Bouali University, Chlef, Algeria.
8. Center for International Private Enterprise (CIPE). (2005). **Establishing corporate governance in emerging markets.**
9. Al-Rakibi, J. M. (2010). **Governance of contractual relationships in Islamic financing modes: Murabaha, Mudaraba.** Paper presented at the Second Islamic Services Conference, Academy of Graduate Studies, Tripoli, Libya.
10. Al-Rubaie, H. M., & Radi, H. A. H. (2011). **Bank governance and its impact on performance and risk.** Dar Al-Yazouri Scientific Publishing and Distribution.
11. Corporate Governance, Alexandria and Cairo Stock Exchanges. (2009).
12. Wahab, D. A., et al. (2013, November 25-26). **The impact of institutional governance on the level of accounting disclosure in financial statements.** Paper presented at the International Scientific Conference on Governance Mechanisms and the Requirements for Achieving Sustainable Development, Ouargla, Algeria.
13. Muteer, R. H. **Mechanisms for strengthening the role of internal audit in corporate governance.** Islamic University.
14. Farhan, T. A., & Al-Mashhadani, I. S. (2011). **Institutional governance and strategic financial performance of banks.** Dar Al-Safaa Publishing and Distribution.
15. Nasser, A. A. (2016). **The role of external auditing in supporting good corporate governance practices in Algerian economic institutions.** Master's thesis, Setif, Algeria.
16. Al-Husseini, A. M. **The role of corporate governance and investment institutions in improving economic systems.** *Economic Newspaper.*
17. Shehata, A. W. N. A. (2007). **Audit and corporate governance in the contemporary Arab and international business environment.** University Publishing House.
18. Darwish, A. H. (2007). **Corporate governance and the role of the board of directors.** Arab Banking Federation.
19. Farhan, T. A., & Al-Mashhadani, I. S. (2011). **Institutional governance and strategic financial performance of banks.** Dar Safaa Publishing and Distribution.
20. Haboush, M. J. (2007). **The extent of commitment of Palestinian joint-stock companies to corporate governance rules: An analytical study.** Master's thesis, Islamic University, Gaza, Palestine.
21. Suleiman, M. M. (2006). **Corporate governance and addressing financial and administrative corruption.** University Publishing House.
22. Suleiman, M. M. (2009). **The role of corporate governance in addressing financial and administrative corruption: A comparative study** (2nd ed.). University Publishing House.
23. Al-Kafi, M. Y. (2013). **The global economic financial crisis and corporate governance.** Arab Society Library for Publishing and Distribution.
24. Charter of Good Corporate Governance for Institutions in Algeria. (2009).
25. Qatar Financial Markets Authority. (2016, November 10). **Corporate governance system for companies and legal entities listed on the main market.** Doha.
26. International Finance Corporation (IFC). (2020). **Why corporate governance.** Retrieved from <http://www.ifc.org/wps/wcm/connect/3fdab3004ee41d95bd20ff3eac88a2f8/Why+Corporate+Governance.pdf?MOD=AJPERES>
27. Jensen, M. C., & Meckling, W. H. (1976). **Theory of the firm: Managerial behavior, agency costs and ownership structure.** University of Rochester.
28. Organization for Economic Co-operation and Development (OECD). (2004). **Principles of corporate governance.** Paris.

29. Fawzy, S. (2003, August). **Assessment of corporate governance in Egypt.** *Egyptian Center for Economic Studies*, Working Paper No. 82.

Annexes

Table 1: Cronbach's Alpha Coefficient

Dimension	Number of Items	Cronbach's Reliability	Alpha	Level
Extent of Interest in Corporate Governance Principles	24	0.912		High

Source: Prepared by the researcher based on SPSS 27 outputs.

Table 2: Distribution of Sample Individuals by Gender Variable

Gender	Frequency	Percentage %
Male	77	69.4
Female	34	30.6
Total	111	100

Source: Prepared by the researcher based on SPSS V27 outputs.

Table 3: Wilcoxon Test for the Dimensions of the Extent of Interest in Corporate Governance Principles

Dimension	Mean	Standard Deviation	Percentage %	Sample Direction	Approval Level	Rank
Availability of an Effective Framework for Corporate Governance	3.2950	0.81478	31.26	Neutral	Medium	4
Disclosure and Transparency	3.2590	0.85475	30.92	Neutral	Medium	5
Protection of Shareholders' Rights	3.2477	0.78080	30.81	Neutral	Medium	6
Equal Treatment of Shareholders	3.3468	0.76957	31.75	Neutral	Medium	3
Role of Stakeholders	3.4572	0.82426	32.80	Agree	High	2
Responsibilities of the Board of Directors	3.5743	0.78884	33.91	Agree	High	1
Weighted Mean	3.3634	0.64126	31.91	Neutral	Medium	/

Source: Prepared by the researcher based on SPSS V27 outputs.

Table 4: Results of Respondents' Answers Regarding the Extent of Interest in Corporate Governance Principles

Dimension	Sample Size	Wilcoxon Test P-Value	Standard Error	Critical Percentage (Z Test)	Asymptotic Sig. (2-sided test)	Effect Size D
Availability of an Effective Framework for Corporate Governance	111	3317.500	272.414	3.632	0.000 ($\alpha < 0.001$)	34.54%
disclosure and Transparency	111	3190.000	272.477	3.164	0.002 ($\alpha < 0.001$)	30.09%
Protection of Shareholders' Rights	111	3544.500	293.695	3.299	0.000 ($\alpha < 0.001$)	31.29%
Equal Treatment of Shareholders	111	3589.000	276.473	4.386	0.000 ($\alpha < 0.001$)	41.61%
Role of Stakeholders	111	3830.000	276.818	5.251	0.000 ($\alpha < 0.001$)	49.82%
Responsibilities of the Board of Directors	111	4196.500	281.196	6.298	0.000 ($\alpha < 0.001$)	59.75%
Extent of Interest in Corporate Governance Principles	111	4831.500	335.238	5.307	0.000 ($\alpha < 0.001$)	50.35%

Source: Prepared by the researcher based on SPSS V27 outputs.