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Internal mechanisms characteristics and firm financial profitability

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Abstract
We tested whether divergences in the effect of corporate governance mechanisms can explain firm performance in a cross-section of firms in studies done in developing countries. Thus, we tested the link between firm value as measured by Tobin's Q, Return on Assets and Return on Equity and Corporate Governance mechanisms (CGI) represented by several mechanisms of corporate governance such as board size , managerial ownership, and other mechanisms. The results show that corporate governance mechanisms do matter in developing countries. Nonetheless, not all factors of corporate governance are significant. The board feature and ownership structure enhance firm financial performance, while CEO duality in some of studies has no significant impact on firm financial performance. We point out that such mechanisms cannot replace the solidity of the company.

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I. Introduction and Literature Review

Good corporate governance participates to sustainability of the economy and is development via promoting the firm financial performance of firms and enhancing their access to outside capital. In developing markets there is a strong believe that good corporate governance introduces several numbers of public policy targets. It limits vulnerability of the global crises, reduces the cost of transaction and cost of capital and leads to strengthen the capital market (Alabduallah& Ahmed, 2021), (Abushammala et al, 2015), (Alabdullah, 2016a), (Ahmed et al., 2017), (Alabdullah, 2017), (Alabdullah, 2019). Corporate governance system concerns the link between the management and other factors such as board of directors size , overseeing stockholders, control owners and rest of the stakeholders. In emerging nations, the publication corporate governance system 2002 has made it an significant range of works of corporate sector. A corporate governance system is involving of a wide set of practices , accounting standards , and managerial compensation, to board of directors size and composition of corporate boards. A corporate governance mechanisms could be defined who owns the company, and dictates the rules by which economic returns are distributed among stockholders, employees, and other stakeholders see (Alabdullah et al, 2019) and (Alabdullah et al, 2016). Performance is one of the significant instruments of finance and accounting figures that shows the real performance of the company (Alabdullah et al, 2020), (Alabdullah et al, 2017), which is used to judge the efficiency of the management in exploiting the available resources and the decisions taken by the management to achieve the target profit (Ahmed et al., 2021), (Ahmed et al., 2020), and (Ahmed et al., 2016). Thus, several managers tend to practice real earnings management (REM) to reflect the good performance of the firm. The present research aims at reviewing the literature to clarify the concept of real profit management and the techniques used by managers to practice REM and to clarify the consequences that the firm bears if the management practices earnings management. A large amount of literature on earnings management and its relationship to company performance studies have been done (Alabduallah, 2019), (Ahmed et al., 2018), (Alfadhl&Alabdullah, 2016), (Alabdullah, 2016a), (Alabdullah, 2016b), (Ahmed et al, 2021), (Alabdullah, 2016c) , (Alabdullah, 2016d), (Alabdullah et al., 2015), (Fama, 1980), (Ahmed, 2014), and other studies' evidences have been established that financially constrained firms employ accrual earnings management (AEM) to improve their financial standing such as (Alabdullah et al., 2019), (Alabduallah et al., 2021), (Ahmed et al, 2018), (Ahmad et al., 2014). Furthermore, see for example (Ahmad et al., 2018), (Alabduallah, 2019), (Alabdullah, 2018), (Alabdullah, 2016a), (Ahmed et al, 2021), (Alabdullah, 2016c), (Alabdullah et al., 2016), (Alabdullah, 2016d), (Alfadhl&Alabdullah, 2016), (Alfadhl&Alabdullah, 2013), (Almashhadani, 2020), (Alabdullah et al., 2021), (Almashhadani & Almashhadani, 2022), (Almashhadani & Almashhadani, 2022), (Ahmed et al., 2021).

However, an important number of research have revealed a negative link between company performance and earnings management, implying an opportunistic strategy to income management.

The fact that the research is predicated on established and rising economies must be emphasised as a source of discrepancy in the outcomes of existing studies. As a result, studies reveal that when a positive association is created with firm performance, the strategy is effective. For instance (Almashhadani & Almashhadani, 2022; Alabdullah et al., 2022), there have been instances with contradicting and equivocal conclusions on how earnings management practices affect firm performance. Ahmed et al. (2020) mentioned that when a good connection is created with firm performance, substantial evidence but a recommendable component of the earnings management practice has been promptly recognised as an informational or efficient strategy. Alabdullah et al, (2016), revealed confirmation that financially strapped companies implement AEM to improve their financial standing. Nonetheless, a significant number of research (Alabdullah, 2016b) , (Alabduallah et al., 2015), (Alabdullah et al., 2020), (Alabdullah et al, 2019), (Yermack, 1996), (Ahmad et al, 2019), (Alabdullah et al, 2020), (Ahmed et al., 2018), (Alabdullah& Ahmed, 2018), (Essia, 2014), (Alabdullah et al, 2014a), (Alabdullah, 2014b), (Alabdullah et al., 2020), (Ahmad, 2018), (Ahmed et al., 2020), (Alabduallah, 2021a), (Alabdullah, 2021b), (Alabdullah et al, 2018), Alabdullah et al, 2018), (Alabdullah et al, 2021), (Nor et al., 2020), have found a negative link between firm performance and earnings management, suggesting an opportunistic strategy to income management.

The fact that existing research is cantered on established and rising economies must be emphasised as a source of discrepancy in their findings. As a result, the results of research in industrialised economies differ from those in other contexts as mentioned by (Ahmed, 2014), (Alabduallah et al., 2021), (Ahmed, 2017), (Alabduallah et al., 2014), (Alabdallah et al., 2020), (Alabduallah & Ahmad, 2019; Khan et al., 2014, 2007, 2008), (Ahmad et al., 2019), (Ahmed et al., 2018). Even though earnings management is still used in advanced countries, there were claims that it is more prevalent in emerging economies. The economic impact of the behaviour is intuitively low. Nevertheless, because of the inconsistent character of prior studies indicating that earnings management strategy could have a good or negative effect on a firm's performance, empirical issues have been made.

Earnings management has previously been divided into two categories, namely AEM and REM. Note that AEM was commonly employed until the passage of the Sarbanes-Oxley (SOX) Act in 2002, which led to a major reduction in its use. Firms, on the other hand, began to recognise and pay attention to REM. Both approaches, nevertheless, are still in use today, especially in emerging economies.

The Asian Stock Exchange (GSE) has announced the suspension as well as the delisting of companies from the Asian market. According to reports, the scenario is because a variety of management concerns, for example, lowly performance. In new years, the market has seen a wide level of low and high and performance differences.

Many technical complications could donate to the delisting and suspension of companies on the GSE in this regard. Academics looked into working capital, liquescency, CSR, as well as capital construction to realize how these affected companies' performance on the GSE. In light of the foregoing, as mentioned by Alabdulah, et al, (2019), in their study they evaluated the non-financial earnings management originalities on the GSE to control if there are any factors that could affect financial health. The practical data on the scope of such engagements have raised questions about whether income manipulation is beneficial or harmful to GSE enterprises' performance. The study is unquestionably centred on awareness creation, information generation, and control in the Asian environment. Several applied, academicals, and theoretical works had been undertaken to introduce insights into the development, practice and theory of corporate governance mechanisms and their impact on firm performance, however the contribution from a Middle East in general and Asia in particular is few and peripheral in light of the existence and impact of pandemic of COVID-19, taking into account several important mechanisms such as CEO duality, board size, managerial ownership, risk management, audit committee role, foreign ownership, financial leverage and market share and their impact on firm performance.

Founded by agency theory and its perspective, if costs are upheld to a minimum, firms' performance could be boosted. As shareholders and managers' purposes diverge, the agency cost might be apparent as a worth loss for stockholders. Furthermore, agency theory are displayed in the stock market that holds an impact on the firm's stock price. Thus, if agency costs are controlled correctly, they may assist in raising the company's stock value, therefore enhancing the company's overall financial success. Monitoring, bonding, and residual costs are all included in the total cost of the agency. As a result, the corporate governance system should untangle the reasons for these disputes in order to lower agency costs, necessitating a grasp of agency theory. Managers should be encouraged to behave in the best interests of the principal by efficient corporate governance processes (Alabdullah et al., 2021).

The agency theory states that if there is a well-developed market, corporate controls do not exist. Failures of the market, moral hazards, market non-existence, incomplete contracts, asymmetric knowledge, and moral selection are among the results. Nevertheless, other research has found that robust market competitors, adequate monitoring, cautious debt sourcing, CEO pay management, an efficient board of directors, concentrated holdings, as well as corporate control markets can assist in solving the agency problem. Agency theory supporters postulate that the chairperson and CEO roles must be selected from various people. This will guarantee that the chairperson and CEO have sufficient checks and balances (Ahmed et al., 2020). Besides, the practical mechanisms of the present paper is to review and analysis previous works to determine gap in the literature review studies in the Middle East companies and therefore it represents a core role for further works and studies Ahmed et al, (2019), AL-Fakhri and Alabdullah, (2021). The current study attended to review different practical and theoretical perspectives of the previews studies to have link between corporate governance system and firm financial performance, especially the present study takes in its account previous studies that dealt with several mechanisms belong to corporate governance system and the impact of such mechanisms may firm financial performance as mentioned Alabdullah, (2017), Alabdullah, (2016a), Hassan Al-Tamimi, Miniaoui and Elkelish, (2015). The present work dealt with several corporate governance mechanisms due to it is represented as an linked line of agency theory as mentioned by Alabdullah, Yahya, Nor, and Majeed (2016) and this it is considered to be a real solution that also might strongly participated to alleviation of agency cost and its problem. Corporate governance system has participated in finding a solution for several problems in all countries in Developed and developing countries, constantly evaluating firm financial performance, and further developing oversight, and to measuring firm financial performance and to strongly contributing to evaluating management risk and therefore corporate governance has a positive impact on sectors and institution (Alabdullah, Ahmed, & Muneerali, 2019). Such control system give more attention to how prepare mangers and departments to raise productivity of its firms (Chowdhury, Othman, Khan, & Sulaiman, 2020), the effectiveness of firms and oversight the problems that might impact negatively on firm financial performance' problems. It raises the national and international economy and the to evaluate corporate financial performance (Alabdullah, Laadjal, Ahmed, & Al-Asadi, 2018; Khan et al., 2012;2015;2007). Furthermore, companies seek to enhance firm financial performance of corporations to increase profitability of firms and enhance their competitiveness in the markets. Several corporations suffer from a manipulation and also lack of firm financial performance because of the manipulation of financial statements and sometimes the present of fraud, which led to lack of managerial profit. Many studies like Alabdullah et al (2021,2020,2019) and Alabdullah (2016,2018,2019) mentioned that for corporate governance mechanisms and profitability research there is a dire need for further theories. Therefore, the present study is based agency theory in introducing and give an explanation of the relationship between management of the company and shareholders which the shareholders and the management are represented by the managers who oversees and manage firms' resources due to the top managers have more information than the stockholders to be used in supervision companis' operations (Jensen & Meckling, 1976).

II. Conclusion

This study proved that companies are not profitable because they have good corporate governance, but performance and profitability are two indicators that the company has good corporate governance. This is not to say, of course, that corporate governance is irrelevant, but rather, to say that the discrepancy and apparent difference in corporate governance is not the cause of the perceived discrepancy in corporate profits. This notion refers core implications for empirical study in corporate governance system and, to an extent, in the work of firms generally. The endogenous features of companies are, presumably, chosen to facilitate the firm's targets. If companies are behaving perfectly , then variation in how well they do cannot be shown in their features. Corporate governance is a process of public influence in which one firm could enlist the aid via corporate governance and its principles and mechanisms and its events and also to support of others in the accomplishment of a common task. Corporate governance has control firm performance and the policy agenda in developed and emerging market for more than thirty years in African and Asia which they slowly accepting it on their plan, strategy and agenda on improving company value and sustainability. This study aim to establish the contribution of one of the most appreciated control systems which is corporate governance on company performance of studies done developed and emerging countries. The present work showed that good role of corporate governance is a main element to improving form performance and then enhancing its value. Therefore, there must be careful and essence efforts by firms' management to create appreciated corporate governance that safeguard there is real mechanisms belong corporate governance flowing its mechanisms and principles. The present work recommended that size of the board of directors must actively support the presence of a long term performance, take into consideration the control of the firm business and meaningfully enhance growth in companies' financial performance, market perfectibility , shareholder wealth and return, share value and customer deep satisfaction. The current study extremely encourages firms leaders and managers to draw strong and well planned strategies to counter any unexpected political interferences, ethnicity and nepotism that are the core cancerous impact to leadership and management styles and firms structures, leadership and top management composition, leadership and manger independency, external parties ownership and managerial ownership concentration that are represent as significant factors to firm financial performance. Therefore, the recommendations for the future studies in regard with corporate governance should take into account the current economic, social , and health crisis represented by Coronavirus to comprise in their works some significant mechanisms of corporate governance to be tested particularly the works in the emerging countries involving Asia for the purpose of the absence of works such as duality in CEO and chairman, board of directors size, management ownership, risk controlling, audit committee, and their impact on firm performance.

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