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The Effect of Corporate Governance on Firm Performance: A Field Study on Electronic Sector in Egypt

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Abstract:

The main objective of this research is to study the effect of corporate governance on firm's financial and non-financial performance. In order to achieve this objective, the research collected literature review about previous variables. This research used survey method on the electronic sector in Egypt. They are 107completed questionnaires, Data was analyzed, and hypotheses tested by using Statistical Package for the Social Sciences (SPSS25). The research found that there's positive correlation but not statistically significant between corporate governance and financial performance, which means that financial performance of listed electronic firms not influenced by corporate governance. In addition, there's positive strong correlation with statistically significant between corporate governance and non-financial performance.

Key words: Corporate governance, financial performance, Non-financial performance - Electronic Sector in Egypt.

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1. Introduction:

Enron, WorldCom, and Tyco were all implicated in business scandals in the United States of America (USA), Transmile (Malaysia), Parmalat (Italy), and HIH Insurance (Australia) are some of the most well-known companies in the world. Morgan, J. P. The United States expressed grave concerns about corporate governance and financial stability Performance on the incline. In this context, corporate governance refers to the procedures and institutions that control how businesses operate. The activities of businesses and organizations are managed and directed with the goal of increasing shareholder value by boosting productivity (Al hada, 2020).

(Turnbull ,1997) defines corporate governance as "all the impacts on the institutional process including those that point to the controllers." and/or regulators involved in the production process Goods and services are sold. Processes and procedures are the focus of corporate governance mechanisms via which members of the firm's interest are channeled take proactive measures to safeguard the interests of stakeholders. corporate governance has become more important in recent years. In today's world, as businesses grow and expand, in both developed and developing countries. As businesses grow, they use local raw resources hire local workers, sell to the community, and pay local taxes and so on, all of which are ostensibly for the benefit of the society.

Corporate governance is crucial. Through the legal system, there is a mechanism in place to protect outside investment. Responsible businesses go above and above to help others. Corporate governance practices that benefit the environment and society as a whole huge while also increase the long-term value of stockholders (Ausloos, M. 2021).

2. Literature Review and Hypothesis Development

2.1 Literature review

2.1.1: corporate governance on financial performance

Corporate governance is defined by Zingales and Raja (1998) as a set of limitations that leads to ex-post bargaining over the firm's quasi-rents. To put it another way, the firm is the focal point of both implicit and explicit contracts.

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Gompers et al. (2003) constructed a governance index from a sample of 1,500 big enterprises They also discovered that companies with strong shareholder rights have higher fund value and growth. Black (2001) discovered that governance methods are substantially associated to the price-earnings ratio. Shleifer and Vishny (1997) define corporate governance as a set of processes that assure potential external capital suppliers receive a fair return on their investment. It also improves the firm's long-term success by increasing its responsiveness to societal needs.

(Al-ahdal, Alsamhi, Tabash, & Farhan, 2020) provides a brief view about the background of corporate governance mechanisms in India and Gulf Corporation Council (GCC) countries. The results show that Indian firms are performing better than Gulf countries ones in terms of corporate governance practices and financial performance.

(Musa, 2020) investigates the relationship between corporate governance in the board of directors and the financial performance of Nigerian banks. The result indicated that the relationship between board independence and ROA is negatively insignificant. Board meeting and ROA were found to be negatively significant.

(Bajaher, 2021) has examined the association between corporate governance mechanisms ownership structure and firm performance on Cement Companies Listed in Saudi Stock Market. The results of the study revealed that managerial ownership and firm size have a positive and significant impact on firm performance. However, board independence board size, board meeting and audit type have no effect on the financial performance.

(Dzingai & Fakoya, 2017) examines the effect of corporate governance structures on firm financial performance of Johannesburg Stock Exchange (JSE)-Listed Mining Firms. The result of the study explains that effective corporate governance through a small effective board and monitoring by an independent board, improve Listed Mining Firms financial performance.

(Palaniappan) examines if certain board characteristics have an impact on the financial performance of manufacturing firms in India. The results finding an inverse association between the extent of board characteristics and the firms' performance indicators.

2.1.2: Corporate Governance on Nonfinancial Performance

Suleiman Hussein Al-Beshtawi, et, al (2014) indicate the role of corporate governance in the commercial banks and Islamic banks in Jordan and its impact on financial and non-financial performance. The study recommended the need for greater attention to the competent authorities to monitor financial and non-financial performance of the departments of Jordanian banks and increase the provisions of the law and the necessary legislation imposed by the government and the competent application of corporate governance.

Dao, B. T. T., & Ngo, H. A. (2020) investigated the impact of corporate governance and earnings management on firm performance in Vietnamese non-financial companies. The result showed that corporate control variables of were leverage and profitability which have positive influence on earnings management. Other corporate governance determinant factors such as board size, executive size, supervisory size, auditor, and executive in board have insignificant relationships with earnings management.

Nyarku, et, al. (2019) Used a multinational corporation “Nestle´” that operates in a developing economy (Ghana) as a case study, to examine the influence of customers’ CSR awareness level on the firm’s non-financial performance (image and reputation). The result shows that customers’ CSR awareness levels have a positive impact on Nestle image and reputation.

Nazar, et, al. (2021) used four corporate governance variables such as managerial ownership board size, board independence, and CEO duality. Moreover, considers three control variables such as profitability, firm size and corporate tax to achive The Dynamic Impact of Corporate Governance on Investment Decisions of Non-Financial Companies in Sri Lanka. The result presents a positive impact of four corporate governance variables.

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2.2: Hypotheses Development

In order to achieve the research objective, the following hypotheses are formed:

H1: There is no significant effect of corporate governance on financial performance.

H2: There is no significant effect of corporate governance on non-financial performance.

3. Research Methodology

The survey method was used for investigating the opinions and judgments about the impact of the corporate governance on firm's performance. Survey method considers as primary source of data use to obtain views and opinions about existing phenomenon, the questionnaire will distribute online via Google form.

The primary data was obtained by means of a questionnaire designated for this purpose. Statistical Package for Social Science (SPSS 25) was used to carry out the appropriate statistical tests to reach valuable indications that support the subject of the study such as correlation coefficient and regression analysis. The research population is represented in electronic sector companies in Egypt, 107 questionnaires were accepted after examining the questionnaires.

Questionnaire includes 3 sections, first part questions about the corporate governance; Second part includes questions about financial performance. The third part includes non-financial performance.

3.1. Regression analysis

H1: There's no significant between corporate governance of the firm financial performance

Table no.1 model summary H1

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.839	.704	.701	.42027
Correlation coefficient.704- positive strong correlation				

Table no.2 Anova table

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	44.497	1	44.497	251.933	.000[b]
	Residual	18.722	106	.177		
	Total	63.219	107			
a. Dependent Variable: FPM						
a. Predictors: (Constant), CG Significant is 0.000 smaller than 0.05. Thus, significant relationship between corporate governance and financial performance.						

H2: There's positive relationship between corporate governance of the firm non-financial performance.

Table no. (3) Model summary H2

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.772[a]	.596	.592	.52073
a. Predictors: (Constant), CG Correlation coefficient 0.772 positive strong correlation				

Table no. (4) Anova table

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	42.388	1	42.388	156.321	.000[b]
	Residual	28.743	106	.271		
	Total	71.132	107			
a. Dependent Variable: NFPM						
b. Predictors: (Constant), CG						

Significance is 0.000 less than 0.05. Thus, there's significant relationship between corporate governance and non-financial performance.

4. Research Results

According to testing hypotheses there's positive correlation but not significant between corporate governance and financial performance. So, accept first hypothesis. However, there's positive significant relationship between corporate governance and non-financial performance. Thus, reject second hypothesis.

5. Research Summary

The research aimed to investigate the impact of corporate governance and financial performance and non- financial performance of electronic sector companies in Egypt. We found positive not significant relationship between corporate governance and financial performance, this may attributable that the corporate governance affects the financial performance. In addition, we conclude based on firm's understudy that positive significant relationship between corporate governance and non-financial performance. This means that non-financial performance of listed electronic firms influenced by corporate governance.

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Appendix

Dear Mr/s: ……………………

The main objective of the research is to investigate **The Effect of corporate governance on firm's performance.**

And the researchers hope you fill in the next questioner to help them achieve the research objective.

We are thankful for your time and corporation.

First: Personal Information:

1- **Name:** ……………………………..……..
2- **Phone:** (Optional) ……………………..……..
3- **Entity Name:** (Optional) …………………
4- **Job:** ………………………………..……
   - Junior Accountant
   - Senior Accountant
   - Accounting Manager
   - CFO

5- **Experience:**
   - Less Than 5 years
   - From 5 to 10 years
   - More Than 10 years

6- **Education:**
   - Bachelor of Commerce
   - Diploma
   - Master
   - Ph.D.
   - Professional Certificate (Name)

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GROUP (1) (Corporate governance)

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1. Corporate governance board's role.	1	2	3	4	5
2. Corporate governance change their approach when the crisis.					
3. Corporate governance role in oversight of risks factor in.					
4. Corporate governance influences the corporate risk culture.					
5. Corporate governance evaluates the board's effectiveness.					
6. Corporate governance is one of the fundamentals of improving financial performance.					
7. Corporate governance affects the country's economy in financial performance.					
8. The effectiveness of corporate governance is determined by the extent to which the objectives of stakeholders are achieved.					
9. Corporate governance depends on the legal and regulatory environment.					
10. Corporate governance works largely on the efficient use of economic resources to achieve the objectives set by the company.					
11. Corporate governance leads to an improvement in financial performance The company must be a participant in the financial market in order to publish financial statements					

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and reports in this market.					
12.Corporate Governance Practice an effective practice that leads to attracting investors and gaining their trust because of its advantages, the most important of which is providing justice and transparency for all stakeholders					
13. Disclosure and transparency are among the most important principles of corporate governance.					
14. The culture of governance helps to activate the role and responsibilities of the owner and members of the boards of directors and executive management.					
15. Applying corporate governance to financial performance in Egypt.					
16. Applying corporate governance to operational performance in Egypt.					

GROUP 2 (Financial performance)

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1. Financial performance is one of the indicators used to measure the success of a institutison in terms of financial returns.					
2. The financial performance appraisal system helps ensure the availability of liquidity.					

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3. The financial performance appraisal system helps ensure the availability of measure the level of profitability.					
4. The financial performance appraisal system helps ensure the availability in light of investment and financing decisions.					
5. Increasing sales leads to an improvement in financial performance.					
6.Financial performance can extend the organization's ability to reduce its costs and increase its revenue to achieve financial profit					
7. Financial ratios extract financial indicators and criteria for companies that help them easily and easily identify their financial performance in the past and present and help in reaching future conclusion.					
8. Corporate expenses lead to an increase or decrease in financial performance, depending on the effectiveness of the board of directors.					
9. Corporate governance affects the country's economy in non-financial performance.					

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GROUP 3 (Non-financial performance)

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1. The non-financial performance represents the essential influence that reflects the organization's ability and the extent of success it achieves in investing the financial.					
2. The non-financial performance represents the essential influence that reflects the organization's ability and the extent of success it achieves in investing the human effectiveness.					
3. The non-financial performance represents the essential influence that reflects the organization's ability and the extent of success it achieves in investing the technical and informational resources effectiveness.					
4. Strategy is an important factor in the impact of the company's operational performance, as without a specific strategy, there is no financial or non-financial performance.					
5. non-financial or operational performance increases its efficiency by flexibility in dealing with organized operations quickly, which maintains its market share.					
6. Failure to follow the development of technology affects the operational performance of the company which allows an advantage over other companies.					
7. The importance of measuring operational performance is that it focuses on the long-term of the company and therefore depends on improving performance.					
8. Quality is one of the most important factors of the non-financial performance.					
9. Corporate governance is one of the fundamentals of improving non-financial performance.					