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The Relation between Corporate Governance, Risk Management and Financial Performance: Theoretical and Analytics Framework

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Abstract: The paper aims to review the relation between Corporate Governance, Risk Management and Performance. We reviewed these variables and develop a Theoretical and Analytics framework. First introduction (study background, Problem Statement, Research Objectives and research questions). Second literature review (A) financial performance such as ROA, ROE, EPS and Tobin's Q, (B) Corporate Governance as Board of Directors, Board Composition, CEO Duality and Board Size (C) Risk Management. Third, we discussed Underpinning Theories such as, Agency Theory and Institutional Theory. Fourth, we developed a Theoretical Framework where we illustrated (A) Corporate Governance and Financial Performance, (B) Risk Management and Financial Performance (C) Compliance with Accounting Standards and Financial Performance. Finally, we developed a comprehensive reviewing based on above variables.

Keywords: Corporate Governance - Risk Management – Performance.

1 Introduction

Any firm is governed and regulated by a system of rules, standards, and procedures known as the AGRC. Which is a component of corporate governance. Balance between the interests of a company's stakeholders, including shareholders, senior management, consumers, supplier, funders, the government, and the communities, is a key component of corporate governance [1]. Corporate governance includes every aspect of management, covering action plans and internal controls to performance assessment and corporate disclosure, as it also offers the foundation for achieving its goals.

The majority of businesses aim for excellent corporate governance [2]. A corporation must show strong corporate citizenship in addition to being successful through environmental awareness, moral behavior, and ethical corporate governance processes [3,4,5]. A transparent set of guidelines and controls with aligned incentives for shareholders, directors, and officers are the result of good corporate governance. Audit is considered the most important element of corporate governance [2]. Both owners and shareholders can use the extensive information provided by audit to make informed financial and operational decisions [6]. The objectives of an audit and the information the auditor needs to complete it determine the audit's nature. By employing a methodical, disciplined approach to assessing and enhancing risk management, control, and governance systems, internal audit helps an organization achieve its objectives [7].

1.1.Study Background

Completely utilizing the information obtained and retained by the auditor, they must plan a way to keep frequency with various duties they are supposed to check. On the contrary, all professions are quickly adopting new laws, rules, and procedures. Risk of fraud and errors is decreased through audit [8]. Risk management cannot be disregarded in governance research because main objective of all corporate governance is to limit risk [9]. Boards of directors are more prepared than ever to implement strict managerial measures to reduce the risks associated with transformation.

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Compliance with legal, administrative, statutory, and accounting processes is a crucial component that can be used to reduce risk. Completing a responsibility result in compliance [5,10] Corporations must demonstrate their commitment to both statutory legislation and voluntary standards of conduct. Businesses must therefore demonstrate compliance, which is challenging to do for a number of reasons. One of them is that employee involvement is necessary for compliance.

It is clear from the discussion above that organizations have been addressing audit, governance, risk, and compliance for a number of years, but research is still struggling to find solutions [11]. There is a need to determine how to make fast adjustments in audit, governance, risk, and compliance since once a fraud occurs, a regulation or protection is put in place that becomes beneficial after a few years [1,12]. Thus, understanding the concept of agility and implementing it in audit, governance, risk, and compliance can address the problem that laid basis for corporate governance creation.

1.2 Problem Statement

The main concern with corporate governance in rising economies like the Gulf Council Countries is audits, corporate governance, threat, and compliance, wherein businesses are having problems with these four areas [13]. Scandals and corporate failures, such as SK Networks in South Korea, highlighted downfall of corporate governance mechanisms to make corporate audit better, corporate governance, risk, and compliance [2,7,9,10]. In UAE, the inadequacy of high-quality audit, corporate governance practices, risk and compliance causes inability of stakeholders to safeguard themselves from corporate frauds. Recently, UAE convicts 40 people and 8 companies of fraud. Therefore, the issues related to audit, corporate governance, risk, and compliance of corporate sector have come into question, as it is linked with the financial performance of businesses.

In contemporary publicly traded corporations, ownership and control are segregated, which reduces shareholder input into management decisions. The decision-making process constantly gives managers the opportunity to impose their preferences [14]. Therefore, shareholders must depend upon the board of directors to question management choices and behaviours [9,15]. Furthermore, shareholders suffer if the choices prove to be unwise and dangerous as a result of the directors' inadequate oversight, which emphasises the significance of evaluating governance traits, specifically regarding financial performance. Secondly in the context of UAE, hardly any study has been found over agility of the corporate governance which provide sufficient justification for conducting empirical research over governance in the context of UAE.

Latest research on corporate governance transfer attentiveness from fundamental agency conflicts (principal-agent) towards different realm of agency conflicts amongst major shareholder and minority holder. To mitigate the agency issue, accounting standards have developed certain rules and regulations which the corporate sector need to comply [16]. It should be emphasised that complete accounting standard compliance is challenging to attain because many businesses may choose to disregard some disclosure requirements. Therefore, it is necessary for the responsible authorities to compel adherence to established standards. As crucial as the accounting standard itself is the degree of compliance with it [17]. This is due to the ease with which corporate executives are capable of enriching even if stricter standards of quality and compliance are absent.

Despite the plethora of research on risk management and performance, the findings are mixed [10,12,18]. As a result, there is a void in the literature review of performance due to the contradictory results of earlier studies, and additional research is required to understand and mitigate reason behind these inconsistencies. In addition, very few studies have been conducted over risk and performance in the context of UAE. Therefore, UAE context should be focused on in terms of risk research.

1.3 Research Objectives

The study has four objectives, which are as follows:

1. Determining the effects of corporate governance on financial performance of public organizations of UAE.
2. Determining the effects of corporate governance on risk management of public organizations of UAE.

1.4 Research Questions

In order to meet the research objectives the study has the following research questions:

- Does corporate governance has an influence on the financial performance of public organizations of UAE?
- Does corporate governance has an influence on risk management of public organizations of UAE?

2 Literature Review

2.1 Financial Performance

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Performance can be measured using two primary performance indicators of public organizations i.e. performance based of market commonly termed as strategic performance and financial performance [19]. The two assessments differ significantly in that market-based performance measurement is prospective, whereas financial performance measurement is retroactive. Another distinction is that financial performance measurement estimates management's accomplishments, whereas market-based performance measurement estimates possible achievement of management [20]. Additionally, by using certain appropriate procedures, researchers, investment managers, and shareholders, compute performance. Contrarily, accountants evaluate financial performance in accordance with the criteria established by their professions [1,6,18]

Financial performance metrics are essential in helping organizations assess their performance in relation to their surroundings, enabling managers in efficiently planning, controlling, and achieving the objectives of the organizations. [21] examined between 2006 and 2018, the effect of corporate governance practices suggested by Ghana's SEC on firm performance among listed Ghanaian enterprises Panel regression analysis was utilized for the examination of the way every corporate governance measure introduced by the SEC of Ghana affected firm performance using datasets of 38 listed firms in Ghana between 2006 to 2018. Information was derived from annual accounts of publicly traded corporations. The results showed that the corporate board's financial performance was enhanced by the inclusion of both insiders and outsiders. The size of the board, the frequency of board meetings, and the distribution of ownership among shareholders all typically had a beneficial effect on financial success. However, CEO duality had no effect on financial performance, although the inclusion of board committees often had a detrimental effect.

In their research, a number of authors used financial performance measuring at random [5,8,14,22]. Furthermore, several researchers had used several performance measuring systems for research. After that, several researchers used various performance measurement for research. Performance measurements offer benefits over financial performance measurements since they are less susceptible to differing accounting systems, procedures, and assessments of a company's potential to produce economic earnings in the future. Investor expectations strongly affect performance measurements [23]

2.1.1 Return on Assets

The return on assets (ROA) can be used to assess how effectively assets are used to generate net income from operations. Researchers further stated that ROA may potentially be used as a measure of management's efficiency in allocating public resources because being efficient is conceivable while being badly positioned.

2.1.2 Return on Equity

One of the most used metrics for evaluating a company and its leadership is ROE. Net income is divided by the public entity's equity to calculate ROE.

2.1.3 Earnings per Share

Asset return will serve as the performance indicator for this study (ROA). This is in line with what several investigations have suggested. They claim that as each performance measurement has its own specific and special capabilities, combining several performance metrics could increase the study's robustness

2.1.4 Tobin's Q

James Tobin, a Distinguished Professor of Economics at Yale University, created Tobin's Q in 1968. Tobin's Q, which reveals a company's strategic position, is a proportion of the market price of its equity and debt to the recoverable amount of its assets. Due to the limited amount of data available, where [10,19,23] calculated Tobin's Q as the product of the market value of equity as well as the book value of the debt divided by the book value of the net capital in this study (2002). Its use has the benefit of eliminating the challenge of estimating return rates or variable costs, making "Q" a better indicator of both market worth and price.

2.2 Corporate Governance

Corporate governance is a collection of controls or procedures that guide an organisation in attaining its objectives to maximise stakeholders' long-term gains. To ensure accountability for their activities, good corporate governance is essential to safeguard not just the interests of stakeholders but also those of other parties, including consumers, supplier, employment, and the government.

Corporate governance refers to the systems in place to coordinate and direct management to behave in the stakeholders' economic interests [24]. It is the process in which stakeholders of organizations are guaranteed to serve them the best. In conclusion, corporate governance is defined as the relationship between the company's management and its stakeholders,

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with the board of directors acting as a mediator in this connection [25]

The fiduciary relationship between the principals and the agent (management) under the agency contract is strengthened by corporate governance practises (Hacker, 2019). Internal or external corporate governance procedures are also possible. External methods include independent auditors, stock exchange listing requirements, the regulatory environment of the nation, enlisting, and similar. Internal mechanisms include the company board, board committees, CEO characteristics, and other relevant mechanisms.

Better-governed organisations do not seem to need to use the legal system as much to settle governance disputes [26]. Furthermore, they contended that by implementing solid corporate governance, businesses might somewhat make up for inadequate legislation and implementation and potentially boost their potential and evaluation [27]. There have been various attempts at defining corporate governance, but there is no universal agreement because there are many variables that might differ from country to country, such as goals and execution techniques [2]

A forerunner in promoting consciousness and presenting the argument on corporate governance changes, presented definition of corporate governance, according to the report of Cadbury, “Corporate governance is the system by which companies are directed and controlled” [28]. Additionally, corporate governance procedures are a collection of frameworks that define the rights and obligations of an organization's management [29]. The process of oversight and control used to ensure that a company manager's work in the interests of its shareholders is known as corporate governance.

When [30] discussed the division of corporate power and ownership, the idea of internal corporate governance emerged. The stakeholders (the principal), being true beneficiaries of public organisations, are represented by managers (the agent) in their actions.

The function of various corporate governance traits as monitoring methods that offer additional certainty, particularly for regulators, has received more attention during the past 20 years. These include safeguards that are expected to safeguard the stakeholders, such as independent boards and subcommittees. Recruitment of independent or non-executive directors to company boards and subcommittees has increased because of the corporate governance practise reforms [31]. These changes comprise a number of rules created to strengthen the function of corporate governance, primarily those relating to disclosure. The Sarbanes-Oxley Act, for instance, had been a regulation of the dissemination of corporate governance information that was introduced in response to accounting scandals involving numerous corporations. The way that corporations are governed has been significantly impacted by SOX. They emphasise that, in contrast to the pre-SOX era, there is now a negative correlation among performance and board and audit committee independence. Additionally, the UAE government recently announced several improvements in corporate governance, including the requirement to form subcommittees, the majority of non-executives on boards, and declaration of corporate governance implementation. Academic researchers haven't yet investigated these revisions.

In terms of Identifying the influence of corporate governance at performance of selected financial institutions, [32] suggest appropriate corporate governance measures for improving the efficiency of selected financial institutions. On the other hand, the size of the board, the frequency of meetings, and the company's audit committee are used as indicators to assess corporate governance. A sample size of 25 listed financial institutions was chosen for the 2008–2012 study period. Secondary sources will be used to gather the data. According to the investigation, board size and audit committee size impose beneficial impact on a company's performance and have a significant influence on corporate governance factors such as performance. The performance of the firm is, nevertheless, severely impacted by meeting frequency.

A thorough analysis of the current literature regarding the corporate governance (CG) components of the Malaysian market was the goal of [33] study. This study used a final selection of 125 studies from the Scopus and Web of Science databases and used a systematic literature review methodology. Result indicates that, as Malaysia's CG codes continuously modify, there have been a great deal of curiosity across scholars to conduct an indepth study about CG issues in Malaysia.

And [34] identified how corporate social responsibility (CSR) and good corporate governance (GCG) directly affect financial performance. The research was conducted using WarpPLS 5.0 and secondary data from 102 companies that were listed on the Indonesian Stock Exchange in 2014. Partial least square analysis was utilized to analyze the data. The findings demonstrate that financial performance is positively impacted by both the CSR and the GCG method.

Using the random effect model, [35] investigated the effect of the corporate governance index (PAKCGI) on firm financial distress for a sample of 152 non-financial enterprises listed at the Pakistan Stock Exchange (PSX) between 2003 and 2017. The PAKCGI is a self-made index based on the board of directors, audit committees, shareholders' rights, disclosures, and risk management, which are the five key components of corporate governance procedures. The construction of PAKCGI uses a binary coding strategy. The results of the study show that PAKCGI has a beneficial effect on the probability of financial difficulty in enterprises. The PAKCGI's positive coefficient suggests that good business practices lessen the likelihood of financial difficulties in Pakistan by acting as a trigger. Additionally, it has been noted that corporate governance has a sizable favorable effect on financial hardship in Pakistani listed companies.

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Additionally, this analysis demonstrates a significant inverse relationship between CEO duality, board size, and financial difficulty indicators.

The correlation among performance and internal corporate governance has generally drawn some noteworthy findings from the prior published literature [12,20,29,36]. As a result, the purpose of this section is to evaluate the literature in an effort to identify a connection among internal corporate governance practises and performance.

2.2.1 Board of Directors

Among the key components of internal corporate governance processes is the board of directors [37]. A vital monitoring function is provided by the Board, a crucial entity in internal governance, in order to deal with the agency issues that come with running a company. Due to the belief on managers having personal views and could least occasionally behave in the interests of the stakeholders, the board shall supervise and use its ability to track and oversee management to minimize conflict [38]. The board of directors' primary responsibility is to advise management on how to proceed and to disapprove any bad choices.

Additionally, the board's role as an internal corporate governance mechanism will directly influence ensuring acceptable performance [39]. It is necessary for the board to supervise management, and management should be monitored and managed to ensure that they have acted in accordance with all laws [40]. There is speculation that board characteristics including board size, board makeup, and CEO duality may have an impact on performance.

The efficiency of the board of directors determines how it affects performance [5,8,36]. The efficiency of the board depends on three primary factors: board size, content, and interior construction (Alabdullah, Nor, Ahmed, & Yahya, 2018). The independence of the board and its organisational structure are crucial elements that affect how effective it is. In the parts that follow, we will go through the board characteristics of board composition, director duality, board size, and ownership of shares by board members and chair.

2.2.2 Board Composition

Two angles have been taken into consideration when examining the board composition difficulties. According to the first viewpoint, there ought to be more non-executive directors on boards, whilst another viewpoint claimed a larger number of executive directors on boards would be preferable. The percentage coming from external directors to total directors is known as the board makeup [41]. Therefore, the crucial roles played by inside and outside directors are necessary for the board to be effective in overseeing its managers. Therefore, it was stressed that a board's ideal composition should include both internal and outside directors. While outside directors are better independent and skilled at monitoring, inside directors better understand the firm's unique activities and its competitive environment. Additionally, due of their prestige, contacts, and knowledge, outside directors may be able to improve monitoring management and assist with personnel issues by establishing more connections to the outside world. Board composition got massive distinrecognition in the years since it is believed that having outside directors on the board is essential to the board's ability to function impartially.

Independent directors offer objective opinions, particularly on matters of strategy, productivity, conflict resolution, as well as codes of conduct. Global reports from corporate governance committees have emphasised the importance of independent directors' roles [42]. However, the "Companies Act" of the majority of the nations in the globe does not differentiate between the various kinds of boards regarding their obligations, and all directors remain legally equally and jointly liable for the choices and recommendations of a board.

Where [2] noticed that, they came to the conclusion that the Board should include a sufficient number of highly qualified non-executive directors (NEDs) in order for them to have a major impact on the board's choices. A minimum of 1/3rd of the independent directors, or NEDs, should be on the board of directors, according to the UAE Code on Corporate Governance, which was published on February 27, 2020. As a result, the independent directors are successful in achieving the goals of decision- making. The agency theory, which contends that managers would start pursuing personal profits at the costs of stakeholders if given the chance, justifies the requirement for independent non-executive directors on board [43]. for the purpose of monitoring and controlling the managerial opportunism and to evaluate the management accurately, the board will benefit from having independent non-executive directors.

Empirical research has looked at how non-executive directors and performance are related. These empirical investigations' findings are inconsistent. Outsiders are often thought to exert an advantageous effect on performance [44] due to their experience. [45] Identified that outside directors especially having influence in the market improves firm performance. A recent study in GCC region claimed prominent constructive influence over financial performance of corporate sector because of outside directors [46]. Majority of the studies supported the argument of having outside directors in the board, however, [10] completely denied and claimed that outsiders due to lack of their interest have a negative impact over

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corporate performance, whereas, and [47,48] also claimed an insignificant impact of outsiders in the board. It is said that due to no interest of the outsiders the performance declines. whereas the counter argument is that as there is no self-interest or direct conflict of interest the market repute increases.

Considering the board composition, a significant trend has been seen in hiring the outsiders which results in market rewards. Independent directors especially independent outsiders are considered to have a promising internal control mechanism over management of corporation. If outside directors having no ownership in the company may not be highly concerned over the financial performance [21,35] but more for the market performance for their own repute, whereas, majority of the authors found that independent directors might impose a significant effect on overall company performance.

2.2.3 CEO Duality

According to the agency perspective, one of the key monitoring techniques is the separation of the duties of the CEO and chairperson. In case the scenario differs, duality persists, and the CEO will still serve as the chairperson of the committees that monitor and assess the CEO's performance. This could lead to conflicts of interest and compromise the monitoring group's independence.

literature looks at the relationship between the separation of the CEO and the chair and the firm's success as indicated by the return on assets (ROA), Tobin's Q, and industry performance. They discovered that CEO-Chair separation is substantially related positively with higher current and future operating performance.

Another study by [15] indicated that corporations are much more valued, or increase performance, in case two different individuals are allotted the positions of CEO and the Chairman of company. This study used a sample from the annual Forbes Magazine list of 500 biggest firms in the United states.

Like this, Stern Steward performance 1000 database was utilised by Coles et al. in 2001. They discovered that corporations perform better financially whenever the CEO and chairperson roles are distinct for 144 different companies in their sample between 1984 and 1994.Additionally, [29] looked studied how CEO duality related to several performance indicators, including ROA, Tobin's Q, or increased revenue of listed non-financial enterprises on the Ghana Stock Exchange. They discovered that separating the roles of board chairman and chief executive officer lessens conflict amongst managers and board members, improving the trajectory of businesses.

In addition, [32] examined the potential effects of CEO duality on performance, value, and dividend pay-out in family-controlled enterprises between the years 1995 and 1998 using 412 publicly listed firms in Hong Kong. The performance of the company was evaluated using three metrics: market to book ratio, return on equity, and ROA. The results showed a strong and unfavourable relationship between CEO duality and performance.

Additionally, it was found that CEO duality and lower company value are related, suggesting that businesses with mixed structures perform worse. The association between CEO duality and business performance as evaluated by ROA and ROE in Malaysia. A selection of 30 businesses enlisted on Bursa Malaysia in 2007 that were chosen at random revealed that CEO duality had a bad impact on company performance (ROA and ROE).

Similar stream of research revealed that there is a much greater asset return when the chairman and chief executive responsibilities are merged than when they are separated. As a result, there was a strong correlation between dualism and company performance. They further claimed that when the chairman participates in company operations as the CEO, he will increase his investment in an effort to grow the company or advance his own status.

To investigate the impact of CEO duality on company performance (ROA, ROE, EPS, and profit margin) through utilizing companies enlisted on the Main Board of the Kuala Lumpur Stock Exchange during the years 1994 and 1996, Abdullah et.al (2018) observed that there was no relationship among both CEO duality and firm performance. In addition, investigated in Malaysia the connection involving CEO duality and business performance as assessed by Tobin-Q. The findings show that CEO duality was statistically negligible in explaining corporate performance (Tobin's Q) employing statistics derived from annual reports of 87 non-financial listed companies comprising the composite indicator.

2.2.4 Board Size

The size of the board, or number of directors, has a significant impact on how effective the board is [24]. A larger board would be more effective in supporting management in lowering agency costs brought on by ineffective management, which would produce better outcomes. Board diversity is preferable for corporate governance as they might help management make more decisions and are more difficult for a strong CEO to govern [28]. This has the effect of strengthening organisational management and performance while also improving governance. Larger boards offered access to additional connecting opportunities, as well as the added benefit of giving CEOs and other administrators access to a greater number of people who may serve as sources of guidance and advice. The boards' (Larger) space has also allowed for a general improvement in the board's diversity in terms of expertise, technical skills, ethnicity, and race.

Results from earlier studies on the connection between the board property and performance have been ambiguous. Several studies have discussed the importance of board size and there is no conclusive finding over appropriate board size [2,10,18,26,41]. Majority of the studies have favored a large board size, also claimed a major constructive influence of board size over market performance [5,9,27] meanwhile, some contradicted especially those who measured financial performance, identified an adverse effect of board size over finance and in some cases even market performance.

The increased board size helps in social loafing but results in declined performance due to delays in decision making [6,19,25]. Moreover, the measurement of board size over performance has been analyzed with Tobin's Q as well as financial performance in separate studies hardly any study has been conducted that has observed the impact of board size over financial performance measures including Tobin's Q collectively. Most important function related to board of director is to reduce firm cost arising because of separated possession from management.

According to Tobin's Q, other studies showed no connection with board size and firm valuation. Likewise, when examining a sample of the biggest U.S. corporations, [10] found no correlation among board size and firm performance. Additionally, [19] investigated how board size affected Tobin-Q-measured company performance. According to the findings, board size had no statistically significant impact on explaining performance (Tobin's Q). The association involving board size and business success as assessed by ROA and ROE was explored by [34]. A sample of 30 organisations was chosen at random, and the results show no connection between board size and company performance.

2.3 Risk Management

Risk management can be described in a variety of ways. Risk management is a process that aims to reduce, eliminate, and manage risks while maximising benefits and preventing loss from speculating risks [2]. The objectives of risk management are to maximise the likelihood of success and minimise the likelihood of potential future losses. A risk that is troublesome might affect a company's costs, timeline, systems, and productivity.

Management, directors, and staff members are involved in the risk management process used to set possibilities and solutions. Its goals are to identify potential events that could have an impact on the organisation and to manage risk in accordance with the firm's risk appetite in order to give reasonable assurance about achievement of goals [8]. Risk management is a process for controlling potential risks by identifying, evaluating, and resolving them. This process can help to lessen the detrimental impact and new possibilities that the discovery may facilitate in minimising the likelihood of risk occurrence and negative effect after it does.

The topic of risk management must be taken extremely seriously for their success and growth, as well as for economic progress [9,17]. Additionally, weak performance might be related to poor risk management procedures, that will result in an economic meltdown and an unanticipated failure. The fundamental reason for collapse is a failure to implement an effective risk management procedure based on responsibility division.

Risk management procedures are crucial for enterprises. The practise of risk management in the business sector has been the subject of numerous research, and it has been discovered risk management to be a common practise in contemporary enterprises now. Risk management practises were discovered to be one of the variables affecting performance [50]. However, the recent worldwide trend toward bank failures and financial crisis raises concerns about how well firms are using risk management practises. It is discovered poor risk management was one of the causes of the worldwide financial crisis.

Establishing a robust risk management culture in firms will take lots of work [10]. Risk management is an ongoing process that is immediately impacted by changes in internal and external environment [15]. To identifying risk and controlling it, these alterations require stable concentration. Performance requires successful and efficient risk management [50]. Adopting a consistent risk-return profile is essential in delivering continual stakeholder value given the challenging business and financial environment of today.

Furthermore, innovation is undoubtedly a crucial occurrence for every sector of the modern economy [23,41]. Effective financial innovation should lower risks and costs while improving facilities should always be offered to multiple clients [2]. Even Nevertheless, there are some aspects of innovation that pose serious dangers that need to be considered and addressed. Additionally, public entities introduce new dangers associated with tasks and services by removing barriers to other activities and products [19]. The industry's rapid rates of innovation necessitate an assessment of the efficiency of risk management in public organisations.

According to [14] the following elements led to the discipline of risk management's development: (i)tremendous growth in trading activity, (ii) significant increases in the types of instruments traded and trading volumes during the previous few decades, (iii) enormous growth in the use of financial derivatives, and (iv) rapid advancements in computer technology.

There are three reasonable risk management steps to take include: (i) a consciousness of the risks the firm is taking; (ii)

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measurement of the risks to ascertain the influence and relevance; (iii) risk adjustment by implementation of policies or a plan of action to manage or decrease the risks." The methodology behind risk measurement is a major concern for all risk management frameworks. Risk measurement grows more complicated as financial institutions and products evolve. The crucial first step approaching qualified and effective risk management systems is accurate risk measurement [25]. It is important to recognise the benefits of financing risk management.

This objective has always been at a higher risk. The issues with risk management in businesses have a significant impact on both economic growth and general business development. The following benefits accrue to banks that have enhanced their risk management implementation:

- It is compatible with the rule's compliance function.
- It enhances their credibility and potential to draw in a wider range of clients to expand their fund resource profile
- It raises their productivity and profitability.

Financial resources are more readily available for organisations with superior risk management than for those with poor risk management [7]. The possibility of expanding an organization's profitability and asset output arises from the improved financing availability.

Where, [36] used the camels rating model to evaluate the performance of Ghanaian banks. The terms capital sufficiency, assets quality, management effectiveness, income, flexibility, and susceptibility are all abbreviated as "the model." To examine the impact the various elements of the camels' model have on the bank's performance in Ghana, a sample of ten banks was chosen over a seven-year period using the conventional multiple regression method. Additionally, the results of the study of the calculated ratios from the financial statements of the chosen banks showed that revenues emerged as the extremely relevant component that influences the performance of Ghanaian banks.

In their study, [13] looked at how knowledge risk management (KRM) impacts organizational performance. Through the use of a global online survey distributed to both public and commercial organizations, data were gathered. Testing analyses and hypotheses were then conducted using structural equation modelling. The findings indicated that KRM has a favorable impact on organizational success, sustainability, growth, inventiveness, and agility; but, KRM had no discernible positive impact on an organization's responsiveness.

In a setting where the existence and makeup of risk management committees are wholly voluntary, [48] investigated the association between best practice risk management committee and business performance. The sample includes 368 listed Australian companies from 2007 to 2014. Additionally, research demonstrates that risk management committee human capital plays a significant role in boosting business performance as one of the best practice risk management committee characteristics.

The relationship between corporate social responsibility and firm performance was explored by [11]. The study, which examined a sample of Asia Pacific companies, found a strong correlation between corporate social responsibility and firm performance. According to research, enterprise risk management and corporate social responsibility are related. However, there are both direct and indirect effects of corporate social responsibility on business performance. In contrast, business risk management helps to mediate the link between company corporate performance and social responsibility.

And [27] recognized the importance of risk management and interdisciplinary practices in supply chains to address the complex nature and unpredictability faced; however, risk management and explores the connection among supply chain integration (SCI) and supply chain risk management (SCRM) to enhance operational performance (IMSS VI). The results of the study indicate that source, consumer, and integration all have beneficial effects on SCRM, with client and supplier integration acting as a partial mediating factor for the influence of internal integration. The findings also show that SCRM fully mediators the correlation among supplier and customer integration and operational performance while only partially mediating the relationship between internal integration and operational success.

Where, [32] investigate the relationship among financial risk management and small business owners' perceptions of the financial success of their brand-new operations in India's service and industrial sectors. According to the survey, small business owners in India's service and manufacturing industries have more favorable thoughts regarding financial performance of their new operations when financial risk management is seen to be valued highly. The findings demonstrate that new small business ventures with adequate internal funding sources outperform new small business initiatives without enough internal financing sources in terms of financial performance. Owners of production and service companies, financiers, consultants, as well as other stakeholders could find the insights beneficial.

3 Underpinning Theories

Interest conflicts could arise because of the segregation of ownership and management functions and the existence of

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asymmetric information [17]. Agency theory covers these areas of corporate governance, Audit, as well as Risk Management. Self-interest on the part of the manager might result in the waste of corporate funds, such as investment in dangerous and reckless operations depending solely on cost of the stakeholders' providing funds. Likewise, Institutional theory covers the aspects of compliance and risk management both. Because institutional theory talks about development of the mechanisms to have proper systems and compliance requires the same. In the next section, both the theories have been discussed with the link with the framework.

3.1 Agency Theory

Agency theory and institutional theory served as the foundation for this study's theoretical framework. According to agency theory, an agency relationship is an agreement wherein one or more people (the primary) being owners of economic resources hire another person (the agent) to execute a task on account of them. This involves giving the agent some decision-making powers [20]. But according to this idea, management (as an agent) can never be relied upon to behave in the best interests of the public and shareholders (as the principal), as the agents will always work within their own greatest advantage. Several internal and external corporate governance systems have been proposed to accomplish the synchronization between the principal's interest and the agent's interest and to decrease costs.

The basic goal of agency theories is to settle disputes brought on by the division of ownership and management of business resources [50] The knowledge imbalance between agents and principals, which occurs frequently, makes it difficult for the principal to ensure that the agents are acting in their best interests. Where managerial discretion results from informational asymmetry, which exacerbates agency issues and raises agency costs.

Consequently, a variety of internal and external techniques (known as corporate governance) were offered to handle situations of conflict and decrease agency costs. As an example of how to resolve such issues, a board of directors is constituted. Since it holds authority to appoint, dismiss, and pay the senior management, the board of directors is regarded as the primary internal watchdog of that group. Conflicts of interest between stakeholders and management would be eliminated or at least reduced with a robust structure for corporate governance [5,10,18,26]

The likelihood of improved corporate governance systems is increased if the board of directors' function as a regulator is expressly stressed. In light of this, the audit committee and board of directors' roles are to ensure the accuracy of financial reports, oversee top management, and monitor the internal control system in order to decrease agency conflict and improve business performance [2,15,19,47]. As a result, the agency theory offers sufficient support for the connection between corporate governance, audit, risk management, and financial performance of organisations.

3.2 Institutional Theory

The institutional theory postulates that organisational structures in a setting imply social accountability and conformance. To put it another way, internal operating procedures work in conjunction with observable organisational structures to produce the actual organisational work. As a result, organisations with appropriate architecture avoid letting outsiders conduct in-depth analyses of their operational core. Organizations are subject to laws and regulations that ensure their validity, ensure their existence, and make them accessible to resources. These guidelines, however, have no role in ensuring that the business will remain operating well.

According to the institutional theory, institutional pressures would encourage organisations to arrange themselves by comparing their own characteristics to those of other organisations operating in the same context. There are three possible ways that isomorphism might happen: coercive isomorphism, mimetic isomorphism, and normative isomorphism. Mimetic isomorphism refers to firms trying to copy or improve institutional practises of certain peer organisations for competitive advantage while coercive isomorphism occurs where businesses change their institutional practises in response to demand from stakeholders [24] Last but not least, normative isomorphism results from pressure from group norms to use particular institutional procedures [31]

Professional expectations that follow accounting standards serve as a type of normative isomorphism for the organisations that are governed by these standards. According to the institutional theory, corporate governance refers to shifts in organisational processes throughout time as well as the ceremonial functions that state institutions do to justify interactions between the participants in a corporate governance setting [25]. It entails the use of pressure to adhere to the corporate governance rules established by authorities or stock markets. As a result, some businesses implement proposals for corporate governance.

With clarification and defining of goals that meet environmental standards, corporate governance aims to guarantee company's connection with its environment [3]. According to the institutional theory, corporate governance ought to include determining the organisational goals of the company while considering its current system of values [17,29]. According to the idea, it is important to address historic, sociological, and political problems that are pertinent to

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identifying organisational changes while deciding whether to accept or decline a new scheme or regulation. Consequently, corporate governance would be successful as a new approach to the extent that there is a broad concordance between both the rule changes and the current firm practises [9]

According to the institutional framework, the board of directors' primary responsibilities are linking and administration [17]. Previously stated, the board of directors creates a connection between the company and the outside world, whereas in the latter, the board of directors monitors the conduct of senior management with a special emphasis on the CEO. Additionally, institutional pressure forces firms to use comparable methods to manage similarly to other organisations in the same context. Regardless of actual efficacy, this trait of companies might be viewed by other firms as genuine and socially beneficial structures and managerial techniques [23].

Likewise, investigations comparing best practises by audit committees against actual performance benefit from the institutional theory since it is highly effective at emphasising the discrepancies between what organisations do and suggestion by structures to the outside world. In conclusion, mimetic isomorphism is defined as an organization's endeavour to implement a new valid and effective system that has been benchmarked from other organisations. Therefore, when firms tend to implement new laws or best practises or compare themselves to other organisations to establish their legality, corporate governance processes may become uniform throughout time.

Mimetic change happens when organisations believe that certain corporate governance characteristics contribute to the governance structure of successful firms, and as a result, they compare their accounting practises and decisions to those of leading organizations [9]. With the passage of time, this will optimise conformity to corporate governance and accounting rules. Utilizing both structures as a framework could help with a thorough knowledge of corporate governance and board operations because institutional theory and agency theory supplement each other and corporate governance competence [18,21,43]

In conclusion, organisations are guided by a variety of laws and norms to ensure their validity, survival, and access to resources. These guidelines, however, do not ensure that they will continue to run effectively. Additionally, a lot of organisational structures are merely symbolic but might be established to appease societal pressures without having any bearing on the accuracy of the financial reporting or the profitability of the company

4 Conceptual Frameworks:

Formulated upon findings of prior authors in field of performance and the underpinning theory and the supporting theory the research framework has been developed. Agency theory along with institutional theory form the underpinning and supporting theories for the development of the framework that will be empirically tested. The framework builds the argument that audit, corporate governance, risk management, and compliance have a significant effect over financial performance.

4.1 Corporate Governance and Financial Performance

Numerous scholars go to great lengths about how corporate governance and performance are related. The following factors are listed by [2] in their analysis of CG issues from the perspective of its measurement: independent directors, independence of committees, board size, split chair/CEO roles, board meetings, competence of audit committee members, reputation of auditors, and audit committee meetings.

In recent years, both theory and practice have developed a strong interest in corporate governance. Corporate governance has attracted the most discussion and concern from lawmakers, legislators, professionals, corporate entities, the press, and the general population (Sikka, et al., 2018). Although there are numerous definitions and approaches to corporate governance, it could broadly be characterized as the framework for managing and directing businesses [28]

A strong business management system aids the company in raising capital and luring investors and strengthen key business performance factors. Additionally, strong CG increases the company's financial resilience to upcoming financial issues [7], limits shareholder control over corporate management, promotes decision-making processes, and eliminates stakeholder interest conflicts.

As the International Financial Organization (IFC) put it, it "involves the connections amongst management, Board of Directors, controlling shareholders, minority shareholders, and other stakeholders." More precisely, it is the platform that governs how the interests of various stakeholders are aligned [10]. Corporate governance is also defined in the Principles of Corporate Governance by the Organization for Economic Co-operation and Development (OECD). A series of interactions among a company's management, board, and shareholders is known as corporate governance. Additionally, corporate governance offers the framework within which the company's goals are set, as well as the methods for achieving them and evaluating performance

The corporate governance structure establishes the rules and processes for taking strategic choices as well as the

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allocation of rights and obligations among the many stakeholders, including boards, management, shareholders, and other stakeholders. Enhancing a company's overall effectiveness and efficiency, along with the financial performance of the industry in which it operates is largely dependent on excellent corporate governance [15]. A company's potential is diminished by poor corporate governance, which in the worst-case scenario can pave the path for fraud and financial problems.

4.2 Risk Management and Financial Performance

A company employing risk management should increase its overall understanding of risks to be able to maximize profitability and return on invested capital. Companies can reduce losses by improving their responsiveness to risk and aligning their investment strategies with their plan with the aid of risk management [2]. In consequence of this, businesses can effectively balance risk and have consistent periods of profitability. ERM has features such as "expanding the range of options, recognizing as well as managing risk entity-wide, promoting favorable outcomes and benefits while limiting negative shocks, minimizing variability, optimize resource allocation, and building enterprise resilience."

4.3. Compliance with Accounting Standards and Financial Performance

Very little information is available on board performance evaluations of financial performance and adherence to corporate governance standards as set by public limited businesses. And [18], achieving board performance that generates financial performance depends on compliance. The board should conduct a systematic and thorough assessment of its personal performance as well as that of its committee and directors, it is recommended. In its annual report, the board should describe the process used to evaluate the performance of the board, its committees, and individual directors.

According [21] the linkages among compliance firm performance were studied using concepts of accounting and marketing. In a top manager's financial decisions at sharia-compliant firms, [30] looked at the differences in management styles among managers moving between sharia-compliant firms and firms not in compliance with the sharia. They observed a significant difference in decisions between managers of non-sharia-compliant firms and ones of sharia-compliant firms.

Using a mixed-methods research design and partial least squares testing, [38] examined the link among board role performance and compliance with international financial reporting standard (IFRS) reporting standards among microfinance institutions (MFIs) in Uganda. Interviews were held to determine the executed board role and responsibilities. Using a large-scale survey of 266 respondents from textile manufacturing enterprises [15] investigated the effect of strategic orientation on the implementation of green supply chain management (GSCM) techniques and, consequently, sustained firm performance.

5 Conclusions

Businesses that follow the best corporate governance guidelines are able to obtain funds readily and for less expense, and over time, they are more competitive and profitable than those that do not. Improved results and returns enable these businesses to draw in shareholders whose money may be used to fund future expansion and development. As a result, managers are more likely to choose projects with a favorable net present value. The relationship between company financial performance and CG is examined by a stream studies concerning board size and independence, audit committee independence, audit quality, and the extent of CG principles implementation.

After examining the relationship between risk management maturity and firm value, we found that mature risk management is associated with higher Tobin's Q values in organizations and boards are strategic decision-making groups.

Conflict of interest

The authors declare that there is no conflict regarding the publication of this paper.

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