

Corporate Governance: To What Extent it is important in the Arab Countries?

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Abstract: *Globally, Corporate Governance is an important and vital control system and its importance has led to essential for such a system to be applied. The current paper focused on the root of such a system, which started officially on 2002 in America as a form of Sarbanes–Oxley Act. The literature review demonstrated that corporate governance and its beginning started for centuries ago. The current study dealt with some useful information about the origin of corporate governance with highlight of its presence and spread in the Arab countries through what have been done by the researchers in this context. Thus, this study gives a clear imagination to the researchers and academic about the history of corporate governance and brief account about its existence in some of the Arab countries.*

Keywords: Corporate governance, History, Islamic financial Industry

1. Introduction

In the last ten years, several countries around the world have focused on applying corporate governance system in their companies. The reason behind that lies in the global importance role of this system in controlling the operation framework of the companies (Alabdullah, Yahya, Nor, & Majeed, 2016; Alfadhl & Alabdullah, 2013). This system increases the interest of the shareholders via relying on set of robust mechanisms and principles of corporate governance to control the actions of the companies based on principles of disclosure and transparency. Corporate governance has received attention because it positively affects the performance and value of the company (Alabdullah, Yahya, & Ramayah, 2014; Alfadhl & Alabdullah, 2013) because applying such a system has its positive impact on market growth and economic growth (Abushammala, Alabdullah, & Ahmed, 2015). Furthermore, the present paper dealt with the relationship between the two important parties, the management and the owner with the conflict of interest between them (Alabdullah, 2016). Several large corporations and global institutions in the world faced bankruptcy and collapses such as Adolphia and Worldcom. This has led several countries and their companies to pay more attention to the principles and mechanisms of corporate governance (Alabdullah, 2018).

2. Literature Review

2.1 Origin and development of corporate governance

The outbreak of the global crisis because of financial corruption in the US and other countries in the world have called the researchers for applying a set of control systems such as forensic accounting (Alabdullah, Alfadhl, Yahya, & Rabi, 2014) and corporate governance (Alabdullah, 2016). This has led the necessity to understand such system, especially corporate governance, by several parties as academics, international associations and business world. Corporate governance has been defined by several researchers, professional and academic organizations, in the way that there is no consistent definition for this control

system, which needs to formulate a broader concept to be understood by different parties (Alabdullah 2014). For example, (Cadbury, 1992) dealt with the explanation of corporate governance as a system that controlled and managed a company.

In the literature review, previous studies could give clear picture about the origin and roots of corporate governance. The origins of corporate governance (CG) in the United States appeared in the 19th century in Canal Companies. The development in the processing of corporate governance and financial reporting, in Canal Companies, was really influenced by the stockholder the review committee (SRC). Moreover, other studies demonstrated that the first debate on corporate governance was in Netherlands in 1602. Also, the clear surprise that drew the root of CG was in France that represented by the Mississippi Company in 1720 (Alabdullah 2014).

2.2 Corporate governance in Arab countries

Recently there have been a wave of studies in developed countries that focused on corporate governance (Ali, Frynas, & Mahmood, 2017). Nonetheless, a few concern has been given for corporate governance in the last five years in developing countries, in Arab countries, there have been great attention in this subject especially in Jordan (Alabdullah, 2016, 2016, 2016, 2016, 2017, 2018; Alabdullah & Alasadi; Alabdullah, Laadjal, Ries, & Al-Asadi, 2018; Alabdullah, Nor, & Ries, 2018; Alabdullah, Yahya, Nor, & Majeed, 2016; Alabdullah et al., 2014). On the other hand, new contemporary trends in the world have been given an intensive attention to the Islamic financial Industry because of the financial crises as an alternative choice through using tools based on the real economic (Ahmed, Alabdullah, Islam, & Asmar; Ahmed, Aiffin, Alabdullah, & Zuqebah, 2016; Ahmed, Alabdullah, Amran, & Yahya, 2018; Ahmed, Islam, Zuqibeh, & Alabdullah, 2014; Ahmed, Islam, & Alabdullah, 2014; Ahmed, Islam, bin Amran, & Alabdullah, 2018; Ahmed, Yahya, & Islam, 2013; Ahmed, 2010), and this also give more attention to the risks management in Islamic financial instruments (Rahim,

Ahmed, & Faeq, 2018; Ahmed, Amran, & Islam, 2018; Ahmed, Islam, & Ariffin, 2015; Ahmed et al., 2014; Ahmed, E. R., Islam, Ariffin, Halim, & Moniruzzaman, 2013; Ahmed, Yahaya, & Harashid, 2012; Ahmed, & Zuqibeh, 2013; Ahmed, Islam, & Al-Harthy, 2013).

3. Conclusion

Recently, the world has faced many failures at the level of all sectors such as Enron and Arthur Andersen. These failures have led to a shock for all countries in the world, giving great attention to several parties that dealt with companies which have poor level of corporate governance.

Several studies have dealt with the link between corporate governance and firm performance. However, there have been a few empirical studies that take into account to investigate this relationship in Arab countries, while there are a good number of studies that have been done in Jordan. The present study recommended the future researchers to focus on both corporate governance and Islamic financial Industry because of the importance for these two tools.

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