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REVIEW ON THE ROLE OF CORPORATE GOVERNANCE AND INTERNAL CONTROL SYSTEM ON FIRMS' FINANCIAL PERFORMANCE

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ABSTRACT
Research aim: This research analyses the systematic review of the literature (2015–2021) concerning corporate governance, internal control system, and their impact on financial performance. This study brings about several findings on the role of corporate governance mechanisms such as internal controls, the board size, independence, audit performance on the financial performance of firms. The findings suggested that the internal controls and board characteristics are critical for achieving good corporate governance.
Design/Methodology/Approach: Literature review of previous studies on corporate governance's role in improving financial performance.
Research findings: The key findings of this review paper showed the importance of internal controls and board characteristics for the success and sustainability of firms.
Practitioner/Policy implications: The findings of this paper are beneficial for small and medium–sized firms to implement good corporate governance to ensure the success and sustainability of their product and services.
Research limitations: This review is limited to the concept of corporate governance, internal control system, theories of corporate governance, financial performance, board characteristics, and recent articles on this topic.
Keywords: Corporate governance, internal control system, financial performance, agency theory, resource dependence theory
Type of article: Literature review
JEL Classification: G32, G34, G41, O16

1. Introduction

1.1. Concept and Definition of Corporate Governance

Recently, corporate governance (CG) has become an essential factor that allows management to make prompt and effective decisions. Efficient and appropriate supervision in an indispensable manner increases medium–to–long term corporate values, creating, maintaining, and improving companies' success and financial performance (Bhagat & Bolton, 2008; Ciftci et al., 2019; Danoshana & Ravivathani, 2019; Fooladi & Chaleshtori, 2011). CG aims to ensure a transparent and balanced economic development where the shareholders' interests are safeguarded, leading to a sustainable corporation and minimal operation risks (Arslan & Alqatan, 2020).

CG comprises a set of internal controls such as policies, approved rules, and procedures used by firms' managers to ensure that their firms are functioning

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efficiently according to the predetermined objectives of the firm (Al–Zwyalif, 2015; Mihaela & Iulian, 2012). After the financial crisis, such controls were created mainly in the European Union and the US, as new regulations to improve entities' internal controls (Mihaela & Iulian, 2012). However, the lack of efficient CG and internal controls makes firms vulnerable to risks, including improper recording of accounting transactions, losses and uncertainty risks. Carrying out control and technological innovations is vital to the development and survival of frauds and unauthorised transactions, impacting firms' competitiveness and financial performance (Bhagat & Bolton, 2008; Bhatt & Bhatt, 2017; Ducassy & Guyot, 2017; Pillai & Al–Malkawi, 2018).

The lack of good CG caused several corporations around the world to fail in the last decade, making it very clear that firms are required to modify their CG to improve transparency and guarantee the reliance of shareholders on the board of directors' management (Michelberger, 2016). Therefore, new efforts are needed to improve CG to protect shareholders' interests and stabilise the market economy (Gupta et al., 2013). Although CG codices are practised largely in several countries, they are not legally bonded. They merely represent more or fewer recommendations for good CG (Arora & Sharma, 2016; Naimah, 2017). However, recent years have seen the increased interest in employing CG in public companies to regulate stakeholder–management relations and optimise firms' managerial systems (Almaqtari et al., 2020; Rashid et al., 2020).

The structure of CG should define the ideal responsibilities and distributions among firms' parties such as shareholders, auditors, regulators, creditors and should address the procedures, policies, and rules for effective decision making in corporate affairs. The objectives of the firm are effectively pursued in the context of social, regulators, and market environments (Michelberger, 2016). Effective structures of CG inspire firms to introduce values through innovations, entrepreneurialism, exploration, and advancement and provide transparency, internal controls, and accountability. Internal control systems are seen as integral parts of the structure of CG in firms, where efficient firms are those with good internal controls and CG (Abdelkarim & Zuriqi, 2020; Aluchna & Kuszewski, 2020; Saleh et al., 2020).

The remainder of the review paper provides a comprehensive analysis of the roles of good CG and internal control systems to the success and sustainability of firms. Specifically, several essential subtopics are critically reviewed, including the CG, board principles, theories in CG, internal control system, financial performance, board and audit characteristics, and their importance to the success of firms. Additionally, the recent empirical studies that investigated the roles of good CG and internal controls, the board and CEO characteristics towards the success of firms are presented with several practical examples. The review shows several theoretical and practical contributions that will attract both academicians and firms.

2. Literature Review

This section demonstrates the importance of board characteristics and internal controls to achieve sound corporate governance by summarising the important points in previous studies. First, the descriptions of CG and the theories of good CG, internal control system, the board characteristics, audit committee, and the

financial performance are presented. Next, the empirical findings from previous case studies are presented.

In the last decades, CG has grown to be an important mechanism for improving firms' performance aspired by the latest worldwide financial crisis, which underpinned the significance of good CG structures and practices (Ahmed et al., 2020; Coleman & Wu, 2020; Hazaea, Tabash, et al., 2020). The structure of good CG plays a vital role in enhancing firms' performance and sustainability in the long term (Aslam & Haron, 2020; Ghadamyari & Abadi, 2020; Warrad & Khaddam, 2020).

Good CG enhances the organisation's image, boosts shareholders' confidence, and reduces the risk of fraud practices. Good CG comprises several interrelated components such as the board of directors, management, internal and external audits, audit committee, and the internal control system as key components that aid in detecting irregularities at the early stages of projects (Arora & Sharma, 2016; Bhagat & Bolton, 2008; Dabor et al., 2015; Ducassy & Guyot, 2017; Latif et al., 2013; Naimah, 2017; Pillai & Al–Malkawi, 2018).

Although CG varies between companies in different countries, its crucial goals are the same: to attain profitability, high performance and monitor managers to ensure the shareholders' interests. It is noteworthy that weak or inappropriate CG could lead to frauds, abuses, and poor performances (Bunget et al., 2020; Rashid et al., 2020).

2.1. Corporate Governance

CG gained interest following the Wall Street Crash in 1929 when economic and legal researchers such as Eugene, Adolf Berle, Fama, and Kathleen Eisenhardth began attempts to explore the concepts of CG (Jaffé, 1989; Nordberg, 2020; Pong, 2017). However, the breakthrough in employing CG in several emerging economic markets started in the 1990s (Ramedies, 2020). As mentioned earlier, CG refers to the process carried out by the board of directors for the benefit of the firm's stakeholders, to provide authority, direction, oversight to the management, and to govern, establish and manage relationships between internal and external stakeholders (Ahmed et al., 2020; Bhagat & Bolton, 2008; Bunget et al., 2020; Ducassy & Guyot, 2017; Huy et al., 2020; Pillai & Al–Malkawi, 2018; Rashid et al., 2020).

Corporate governance involves the customs, laws, and processes that are designed to aid a corporation achieve corporate goals (Almaqtari et al., 2020; Bunget et al., 2020; Rashid et al., 2020). In particular, an internal controls mechanism is used to eliminate or reduce the issues of principal agents (e.g. conflicts and mismanagement), namely the management, stakeholders, regulators, the board of directors, employees, suppliers, constituents, partners, general community, and consumers (Ramdani & Witteloostuijn, 2010).

Good CG is necessary to ensure firms operate more effectively, enhance capital access, ensure the effectiveness of supervisory functions, and mitigate risk and safeguard stakeholders. It also allows firms to be transparent and accountable to investors to reduce expropriation and unfairness for shareholders and attain strong and balanced economic development. Different CG structures could be implemented for different companies (Sakawa & Watanabel, 2019).

2.1.1. Corporate Governance Principles

Corporate governance is necessary to establish a corporate culture of disclosure, accountability, trust, and transparency, which are critical factors of good CG to allow firms to put their integrity and positive traits on display without duplicity (Agyei–Mensah, 2016). It enables the appropriate incentives for the board of directors to pursue the company's objectives, improves the security of shareholders' investments, and ensures that all shareholders are well informed with decisions concerning fundamental issues such as amendments, sales, etc. (Ahmed et al., 2020; Almaqtari et al., 2020; Bunget et al., 2020; Coleman & Wu, 2020; Hazaea, Tabash, et al., 2020; Rashid et al., 2020).

Corporate governance consists of the essential laws, codes, regulations, and practices that define how organisations are organised, managed and inspected, attract human and financial capital. Corporate governance determines the responsibilities and rights of all parties in the firm, offers market value to stock and shareholders, and ensures the firm operates effectively. According to Agyei–Mensah (2016), the following are the principles of good CG:

i. Acting responsibility and ethically
ii. Ensuring accountability and transparency
iii. Recognising and assessing risks
iv. Ensuring appropriate board structure and components
v. Strong quality management
vi. Clearly defines purpose and strategy

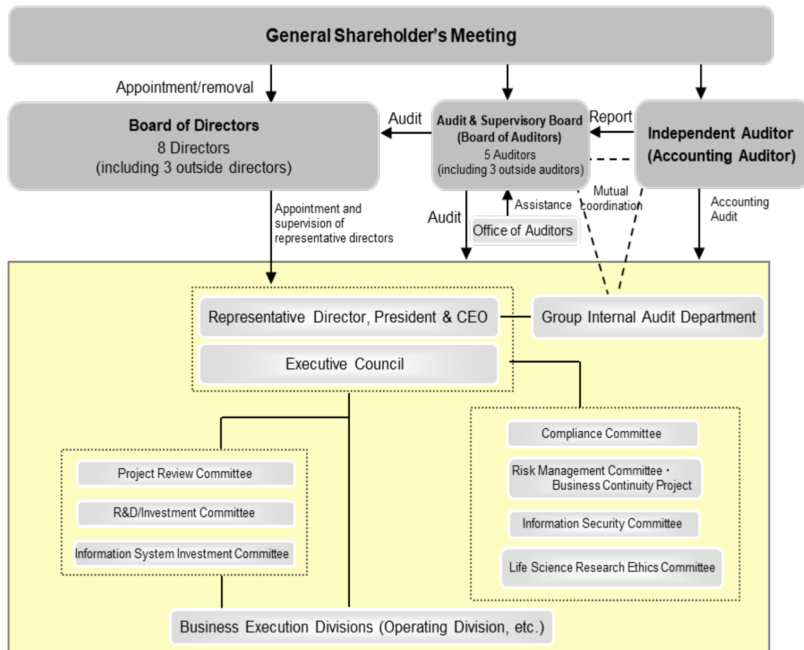

Figure 1 General CG structure and internal control system
(https://www.unisys.co.jp/invest–e/com/governance.html accessed: 5/12/2020)

Figure 1 demonstrates the structure of good CG and internal controls of an organisation that shows the importance of board directors, audit and supervisory board (board of auditors), and independent auditors. Furthermore, the internal audit department comprises directors, representatives, the president and the executive council. The executive council is further divided into two sections. The first section contains the compliance committee, risk management, information security, and life science, while the second section contains the project review committee, R&D assessment, and information systems. These are essential components of a successful CG.

2.2. Corporate Governance Theories

2.2.1. Agency Theory

Agency theory represents the leading fundamental theory, is a dominant theory influencing the CG structure, and attracts much of the research on CG (Haron et al., 2020). First expanded by the roots of the economic theory of Alchian and Demsetz (1972) and then reintroduced by Jensen and Mechling (1976), the agency theory is vital as it allows contractual linkage between the shareholders and the managers of the firm (Nasieku et al., 2014). Based on the agency theory, three firms' problems or issues were identified. The effort problem (focuses on whether managers make an effort to manage corporation to maximise the wealth of shareholders), differential risk problem (concerns on the different views of managers and principal), and the assets' situation (concerns on insiders who control corporate assets) (Patrick et al., 2015). Agency theory recommended that CG mechanisms are required to minimise these problems and conflicts to align executives' financial interests with those of stakeholders by fixing the benefits and compensations of stakeholders, appointing an independent board of directors for checking managerial behaviour as to reduce agency cost (Bhagat & Bolton, 2008; Bhatt & Bhatt, 2017; Danoshana & Ravivathani, 2019; Fooladi & Chaleshtori, 2011).

From the perspective of agency theory, CG is a mechanism in which the board directors of the CG have a crucial role in monitoring managers to ratify their decisions, minimises issues between agents and shareholders to achieve the firms' objectives. This role has been investigated by several researchers such as (Ahmed et al., 2020; Arora & Sharma, 2016; Bhagat & Bolton, 2008; Dabor et al., 2015; Ducassy & Guyot, 2017; Hazaea, Tabash, et al., 2020; Latif et al., 2013; Naimah, 2017; Pillai & Al–Malkawi, 2018). In addition, the agency theory proposes that the presence of independence of board directors is necessary as guardians of shareholders' wealth by reducing the agency conflicts, increasing profitability, sustainability of firms, and improving disclosure and information quality. Several researchers have indicated that the relationship between the improved financial performance of firms and the independent board of directors is significantly positive.

2.2.2. Resource Dependence Theory (RDT)

RDT was first introduced by Pfeffer (1973) and Pfeffer and Salancik (1978) into the research of CG (Hillman et al., 2009; Pfeffer & Salancik, 2003). RDT stresses the essential role of the board of directors, especially the independent boards, to

provide access to resources, improves organisational functions and linkage with the external environment, and enhance the company's performance (Davis & Cobb, 2010; Drees & Heugens, 2013; Hillman et al., 2009; Yusoff & Alhaji, 2012). Therefore, RDT suggests that there is a need to provide environmental linkage between firms and outside resources. The boards of directors must absorb critical elements of the environmental uncertainties into a firm to reduce transaction costs associated with environmental interdependency (Ahmed et al., 2012). Resource dependence theory is important to organisations to allow improvements in the quality of the directors' advice. The independent board of directors can hire other resourceful experts, especially those with excellent skills and specialities, for the board structure and role (Clarke, 2004; Cuervo–Cazurra et al., 2019; Rubino & Napoli, 2020; Zona et al., 2018).

Resource dependence theory provides justifications for creating a linkage between organisations and their external environments through the essential roles of the independent board (Yusoff & Alhaji, 2012). Additionally, under the RDT, the audit committee could function more effectively and resourcefully to improve audit quality due to the mixed knowledge, skills, and expertise shared among audit committee members (Hillman et al., 2009; Yusoff & Alhaji, 2012). Therefore, through an excellent audit committee, firms can extract valuable resources, obtain highly effective audit quality and financial reporting, more significant level of CG and internal controls, attain better benefits and interests of firms and stakeholders' values.

2.3. Internal Control Systems (ICSs)

The internal control system is part of good CG used to observe activities and provide corrective actions to ensure the accomplishment of firms' objectives. The internal control system is defined as a process that influences an entity's board of directors, management, and other personnel. It provides significant assurances to achieve the goals of a firm in terms of operations' effectiveness, reliable audit quality, and relevant rules, policies, and regulations (Napitupulu, 2020). The board of directors with the subcommittees such as audit are responsible for the activities and functions of firms. For example, the audit committee is responsible for providing corporate assurance relevant to standards, regulations, and laws that is to maintain efficient control against employee conflict of interests and fraud (Gal & Akisik, 2020; Hillman et al., 2009; Li et al., 2020; Mihaela & Iulian, 2012; Yusoff & Alhaji, 2012).

Al–Zwyalif (2015) argued that good CG could not exist without an internal control system. Thus, there is an immense realisation that good CG must be embedded with efficient internal controls. Internal control system impacts the overall governance of the organisation and the financial performance. Thus, the views of the independent auditors on firm financial performance are vital for the stakeholders to determine the market value, create trust and confidence, and ensures high performance in the firms (Gal & Akisik, 2020). Asare and Wright (2012) pointed out that internal controls in CG mechanisms make their financial statements more trustworthy. Kim et al. (2011) showed that corporations without internal control systems are weak and borne to fail. Napitupulu (2020) argued that an efficient internal control system leads to significant improvements in financial performance. Agyei–Mensah (2016) stressed out that good CG has links to risks

and internal controls. The internal control system safeguards the corporation from the risk of failing due to the lack of adequate assessment and management of risks. Indeed, an efficient internal control system aid firms to attain excellent profitability and performance and thus prevent the loss of resources (Agyei–Mensah, 2016). An effective control system composes control activities, control environments, risk assessments, monitoring, and communication and information.

Firms without efficient internal controls are riskier and are not performing well compared to their counterparts which confirms the essential role implied by several researchers to direct attention towards investigating the disclosure and importance of internal controls for the survival and success of firms (Aboagye–Otchere et al., 2012; Abor, 2007). Indeed, the internal controls concept has gained tremendous traction among public firms to overcome the incompetent risk management of failed organisations (Branson & Hancock, 2010). Several businesses collapsed, especially during the economic crisis in 2008 that is linked mainly to inadequate inclusion of the mechanisms and risk management of internal control systems (McConnell, 2009). Internal controls provide diagnoses for threats in an organisation and explore alternative solutions, and alleviates the risks. Therefore, the internal control system is paramount in any dynamic business environment to achieve stated business objectives, ensure adherence to regulations, prevent fraud and errors and safeguard firm resources a (Gordon et al., 2009).

2.4. Financial Performance

Financial performance is a key attribute that denotes the success of good CG and the overall good performance of firms (Bhagat & Bolton, 2008; Michelberger, 2016). Performance is derived from 'parfourmen', which means to carry out, do or render, which refers to executing, performing, accomplishing, and fulfilling a given task measured against present standards completeness, accuracy, cost, and speed. In general, the term performance is employed to conducts of tasks (activities) of a firm over time, concerning projected or past cost–efficacy, accountability, and responsibility (the quality of results refers to as performance) (Echekoba & Ananwude, 2016). Performance denotes success, compliance, and conditions (Bhagat & Bolton, 2008; Danoshana & Ravivathani, 2019; Fooladi & Chaleshtori, 2011).

Financial performance is the performance level of a firm (business) over a stipulated time expressed in terms of overall profits and losses. Evaluating a firm's financial performance allows decision–makers to judge the results of business strategies and activities in objective monetary terms. Financial performance can be used to measure the firm's operations and policies in financial terms; in which these outcomes reflect the firm's investment and return on assets, added value, and other associated measures such as those related to the comparison of similar firms across the same industry (Arora & Sharma, 2016; Bhagat & Bolton, 2008; Bhatt & Bhatt, 2017; Ciftci et al., 2019; Dabor et al., 2015; Ducassy & Guyot, 2017; Hazaea, Tabash, et al., 2020; Latif et al., 2013; Naimah, 2017; Pillai & Al–Malkawi, 2018). The results of the financial performance aid managers to make effective decisions and provide an overall picture of the way

the firm is functioning over a period of time with respect to other firms in a similar industry (Chen et al., 2020; Gal & Akisik, 2020; Haron et al., 2020).

2.5. Internal Corporate Governance Controls (ICGC)

Internal corporate governance controls are used to observe activities and provide the subsequent corrective actions to ensure the accomplishment of firms' objectives. For example, the board of directors is seen as a CG monitoring mechanism across all companies to improve the enterprise performance as it provides expert advice, bring knowledge, skills, and experience, acts as a safeguard, and monitor management to achieve the firm's goals (Chou & Buchdadi, 2017; Janggu et al., 2014; Naciti, 2019). The main role of the board of directors is to deliver efficient leadership, directions, support, and assistance to the firm and certify that the priorities, policies, and firm's regulations are carefully applied (Müller, 2014).

As part of the CG, the audit committee members work closely to reduce the potential frauds and errors in financial reporting, preserve and protect the shareholders' interests and equity. As a CG monitor, the audit committee must offer the public accurate, complete, correct, and consistent information, and it must not leave any gap for predictions of uninformed expectations. The firm's CG is strongly related to the audit committee's competence, compositions, expertise, and independence (Arora & Sharma, 2016; Danoshana & Ravivathani, 2019; Müller, 2014).

There is a relationship, whether it is positive, negative, or marginal, between the internal control system and the core part of the CG in which the internal controls are key elements or CGs. In this regard, the CG acts as an umbrella that drives internal controls, which leads to efficient reporting and disclosure frameworks to ensure the proper functioning of the firm and to increase and enhance efficiency (Herath & Freeman, 2012; Krishnan et al., 2020; Mu et al., 2020; Sterin, 2020). Herath and Freeman (2012) argued that the failure of firms is due to the lack of proper internal controls. In short, the CG and internal controls act to control business affairs, improve prosperity, accountability and ensure the successful implementation of the shareholders' long–term goals.

2.6. Internal Audit Function (IAF)

Prior studies argued that without the aid from qualified and well–resourced IAF, it is difficult to observe how the board of directors and managers, especially in medium and large enterprises, can fulfil the requirements of stakeholders to make meaningful reports on the state of their firms' ICSs (Arslan et al., 2019; Aureli et al., 2020; Eulerich et al., 2019). A well–resourced and fully developed IAF helps organisations achieve their goals and provide management with insights into several important areas that are not associated with internal auditing (ethics, CG, and risk assessment) (D'Onza & Sarens, 2018; Ismael & Roberts, 2018; Vadasi et al., 2019). Several studies have pointed out the importance of IAF for attaining good CG because of its location as a centralised function reporting and consulting directly to the board of management (Arniati et al., 2019; Gebrayel et al., 2018; Kumar & Vignesh, 2020; Shakeel et al., 2020; Sulub et al., 2020). Besides, IAF provides effective control and checks frauds through compliance audits that

ensure transparency and accountability (Abdullah et al., 2018; Jachi & Yona, 2019; Raiborn et al., 2017; Tumwebaze et al., 2018).

2.7. Board of Directors Characteristics

A board of directors comprises elected people by shareholders to govern and manage the firm's affairs and is known as the governing body of a corporation. The board of directors carries out corporate policies, selects the corporation's officers, makes certain major decisions on the corporation's finances and business and oversees the operational corporation (Alfraih, 2016; Zona et al., 2018). The board is vital for the existence and survival of public, non–profit, and private firms as a monitoring tool for effective CG to improve the integrity and quality of accounting information. It is an essential internal control mechanism to monitor the activities of top managers to protect shareholders' interests (Horváth & Spirollari, 2012; Unda, 2015). Within corporate governance, the diversity of the board has emerged as a major concern, whereby numerous studies attempt to examine the effect of diversity on a company's performance (Asensio–López et al., 2019; Buallay et al., 2017; Kostyuk et al., 2018; Lombardi et al., 2019; Madhani, 2017; Naciti, 2019; Zubeltzu–Jaka et al., 2020). The diversity of the board of directors is indicated in extant literature to comprise demographic factors such as gender, professional and educational background. It has gained significant attention in recent years because more diversified boards benefit the boardroom by improving connections and networking, expanding business in areas that might be overlooked (Khatib et al., 2021). For example, board diversity can assist firms to gain wider exposure to the environments from policymakers, suppliers, customers, and social group competitors and improve decision–making quality as it considers the different views of underrepresented groups (Tingbani et al., 2020). According to García–Meca et al. (2015), board diversity helps to represent all shareholders and promote better discussion within the boardroom. Recently, Khatib et al. (2021) systematically reviewed the theoretical perspectives and empirical evidence on the effects of board diversity on firm financial and non–financial performance using 91 studies from top–ranking journals in accounting, finance, and economic fields. They found that most diversity research of financial firms focuses primarily on gender diversity while neglecting other aspects of diversity such as age, nationality, tenure, education, experience, religion, and ethnicity. Thus, more research is needed to look beyond the direct influence of board diversity and to explore the diverse roles of the board of directors.

The typical role of boards of directors in CG involves governing the firm by creating strategic goals, policies, selecting, reviewing, and appointing the chief executives, making sure the adequate availability of financial capital, carrying out budget approval, providing accountability to the shareholders, setting and controlling top managers' salaries and compensation, ensuring the obligations of shareholders' are met, and ensuring effective performance of firms (Ramdani & Witteloostuijn, 2010). However, creating an effective board of directors depends on the individual composition of the board of directors, such as the independence, diligence, and expertise to safeguard the shareholders' interests. The board size and board independence are among the important attributes of the board of directors (Michelberger, 2016; Staikouras et al., 2007; Zubeltzu–Jaka et al., 2020).

The relationship between board characteristics and the internal control systems are of great importance to tackling issues within firms such as unreasonable equity structure, firms' internal and external supervision vacancy, and ineffectiveness of board of directors and supervisors (Oradi et al., 2020; Wang et al., 2019). Therefore, internal controls are a bedrock of CG. Several firms revamp ICS to achieve good CG and provide assurance systems for maintaining good CG.

Previous studies have indicated a positive relationship between board characteristics and ICS quality, which subsequently contributes to good CG practices (Chalmers et al., 2019; Khlif et al., 2019; Oradi et al., 2020; Wang et al., 2019). There is a significant association between the audit committees (such as independence or expertise) and high–quality ICS. Michelon et al. (2015) examined whether the board and audit committee characteristics impact the quality of ICS disclosure among four financial markets in Europe. They found that the audit committee's expert chair positively impacted the ICS disclosure; meanwhile, the CEO duality and the independent chair exerted a negative effect.

Yazawa (2015) investigated the impact of board and CEO characteristics on the ICS weakness among firms in Japan. They found that the board size and tenure exerted a negative effect while board independence positively affected ICS weaknesses. Agyei–Mensah (2016) indicated that board independence has a positive relationship with ICS in firms in Ghana. Khlif and Samaha (2014) obtained a positive relationship between the audit committee activities and ICS quality in Egypt. Nalukenge (2020) found that the board characteristics and performance positively correlated with the ICS disclosure, compliance, and quality.

2.7.1. Board Independence

Board independence refers to the number of independent directors who possess seats on the board and have no affiliation with the corporate other than the directorship (Al–Matari et al., 2014). To ensure good CG, the majority of board directors must be independents to catalyse different judgments and present independent objectives on the management's performance, whilst not affected by the firm's management or major stockholders (Gani & Jermias, 2006; Y. Liu et al., 2015).

In this regard, the Securities and Exchange Commission stressed out several conditions required when appointing an independent director as follows:

i. The director should not have any relationship or contact with the firm that may influence his ability to carry out an independent judgment.
ii. The director should not be an executive or partner of the firm's statutory audit firm or consultant for three years preceding the appointment.
iii. The director should not have dealings (i.e., business dealings), which may damage his ability to act independently.
iv. The director should not be a supplier, vendor, or customer of the firm.
v. The director should not have served the firm, at least for the past three years.
vi. The director should not be a representative of a shareholder that has the capacity to controlling the management.
vii. The directors must be independent of shareholders and from management.

2.7.2. Board Size and Financial Performance

The board size refers to the directors' headcount who has a seat on the corporate board. It is one of the essential characteristics of the board dynamics with tactical influence on the independence of the board and overall quality of CG. The size of the board is a crucial attribute to achieve the effectiveness of the board and improve company performance, particularly from the dependent resource perspectives, which give more attention to the board's ability to co–opt scarce resources from a variety of external sources (Muchemwa et al., 2016; Rwakihembo et al., 2020; Topal & Dogan, 2014).

The size of the board influences the deliberation quality between partners and the ability of the board to conclude optimal corporate decisions. However, the ideal or optimal board size is still an ongoing controversial debate in CG literature. Connelly and Limpaphayom (2004) argued that the ideal board size depends on several factors, including the firm's age, industrial classification, size, the extent of monitoring, and the value additions needed. Tufano and Sevick (1997) claimed that firms should have approximately seven or eight directors and that a larger number of directors is time–consuming, leading to pointless discussions and inefficiency.

Meanwhile, Dalton et al. (2005) argued that a large board provides larger expertise and knowledge and that only a few directors are responsible for the decision–making processes. Other studies reported mixed findings on the impact of board size on financial performance and indicated that a large board is useful to provide a better exchange of skills and knowledge, especially in complex firms (Gafoor et al., 2018; Jackling & Johl, 2009; Merendino & Melville, 2019; Mishra, 2020; Mohapatra, 2017; Pucheta–Martínez & Gallego–Álvarez, 2020; Ujunwa, 2012; Yasser et al., 2017).

2.8. Audit Committee Characteristics

The audit committee is a board of directors accountable for overseeing the financial reporting processes, the independent auditor selections, and the receipts of internal and external audit results (Agyemang, 2020; Endrawes et al., 2020). These committee members assist the board of directors to fulfil the CG goals by giving information and advice and overseeing the firm's financial reports, risk management, internal control system, and external and internal audit functions (Handayani & Ibrani, 2020; Hazaea, Zhu, et al., 2020).

The audit committee is also responsible as to review the firm's business activities to determine inefficiencies, reduce cost, investigate the potential threats of theft or fraud or errors to make sure conformity with rules and procedures, assess and manage risk and achieve organisational goals (Adegboye et al., 2020; Endrawes et al., 2020; Sharhan & Bora, 2020). Audit committee members are independent individuals of the subgroups of the corporate board of directors and have no relationship with the firm's management team (Bhagat & Bolton, 2008; Danoshana & Ravivathani, 2019; Heenetigala & Armstrong, 2011). An effective audit committee ensures that the management properly develops and adhere to the internal controls. The procedures are in place to evaluate the practices of management and internal control to improve the overall financial performance of the firms and boost investors' confidence (Sharhan & Bora, 2020). The audit

committee has four characteristics: financial expertise, independence, meetings, and size (Chaudhry et al., 2020; Chou & Buchdadi, 2017; Sterin, 2020).

2.9. Empirical Studies

2.9.1. Financial Performance

Empirically, numerous research has been carried out to investigate the relationship between CG and financial performance while considering internal controls, the board of directors' size, diversity, and so forth. The empirical studies have obtained mixed results, which suggest that there may be no link between CG and financial performance. For example, Okiro (2015) found a significant and positive linkage between CG and company performance. Ahmad and Yameen (2015) investigated the effect of CG practices on wealthy shareholders and organisations' financial performance. The findings revealed that the CG procedures have positive influences on the wealth of shareholders and the financial performance of firms. A study by Akbar (2015) found that CG has a positive and significant impact on a firm's performance. Similarly, Wanyama and Olweny (2013) examined the impact of CG on the financial performance of Kenyan listed insurance companies and found a significant positive relationship between CG and financial performance.

Contrasting to the above, Amba (2014) argued a negative association between CG and financial performance. Similar findings were also reported in studies by Guo and Kga (2012), who found a negative linkage between CG with firms' value. Apart from that, a study by Paul et al. (2015) showed no evidence of a relationship between CG and banks' financial performance. Similarly, Latief et al. (2014) found no significant impact between CG and firm performance. In addition, Makki and Lodhi (2013) found that CG practices do not improve financial performance consistently.

Other studies have stressed the importance of CG variables, such as a study by Al–Sahafi et al., (2015) that showed the size and independence of the board of directors have a positive effect on the financial performance of the banks. El–Chaarani (2014) revealed that the independent board has a positive impact on Lebanese banks' performance. Kumar and Nihalani (2014) examined the impact of CG on the Indian banks and revealed that the board of directors play a significant impact on firm performance. Meanwhile, the meetings of boards have a negative impact. Similarly, studies such as Ali (2018), Handa (2018), Iqbal e al., (2019), Paniagua et al., (2018), and Zulfiqar and Malik (2019) examined the CG variables. They reported mixed results with the significant findings that the board of directors impact the financial performance. Chaudhry et al., (2020) analysed the impact of financial, experiential, and monitoring of audit committee on the firms' financial performance using a quantitative method to gather data from 50 non–financial firms in Pakistan. The analysis was carried out using e–views. The results indicated that the audit committee experiential has a positive impact on assets, return on equity, and firms' net profit.

2.9.2. Internal Control System

Empirically, several studies have investigated the relationship between the internal control system and financial performance. For example, Al–Thuneibat et

al., (2015) revealed that internal controls and their elements (reliability of financial reporting) have a positive impact on return on equity and assets of Saudi Shareholding Companies. Shokoohi et al. (2015) argued that an internal control system is vital to ensure effective performance. The study revealed a positive and significant relationship between internal control systems (control activities, control environment, internal auditing, risk evaluation, and communication and information) and financial performance among Nigerian Telecommunication Companies. Asiligwa and Rennox (2017) found a significant positive link between improved financial performance and internal controls among manufacturing firms in Kenya. Nyakarimi and Karwirwa (2015) found a significant positive link between financial performance and effective internal controls (internal auditing, communications, and activities) in firms. A study by Dineshkumar and Kogulacumar (2013) indicated a positive and significant influential role of internal controls (internal audit, activities, and financial reporting quality) on the financial performance of firms in Sri Lanka.

Li (2020) empirically investigated the impact of internal control as a moderating parameter on the earnings of management methods and the financial performance using Chinese listed firms between 2007 and 2015, combining 15,769 firm–year observations. The empirical findings indicated that internal controls significantly impacted the relations between financial performance earning management (accrual and real earnings). Gal and Akisik (2020) investigated the relationship between internal control, integrated reports over external assurance, and financial reporting on market value in firms in North America from 2011 to 2016. The findings revealed that the internal controls (auditing, reporting, financial position) and integrated reporting significantly enhance the firms' effectiveness and the quality of information of the financial statements and thus on the firm value.

Lai et al. (2020) investigated whether the internal control quality impacts the relationship between investment efficiency and material weaknesses and found that internal controls are significant for the success of firms. Magu and Kibati (2016) used control environment and control activities to establish the impact of internal control system on the financial performance of KFA Ltd with a target population of 78 managers and adopted the Census design. After the analysis of the data using descriptive and inferential statistics, the findings showed a significant and positive relationship between internal control systems and the financial performance of KFA Ltd. Chen et al. (2020) examined the influence of the internal audit quality on operational efficiency using regression models with a sample of Chinese listed companies to test their research hypotheses. The results showed that the internal audit has a positive impact on firm operational efficiency by promoting the internal control quality, especially in the presence of good CG. Krishnan et al. (2020) empirically investigated the impact of internal control regulations on the financial reporting quality of small firms from 2000 to 2010. The results indicated that firms could benefit substantially from the implementation of internal control audits.

Janardhanan et al. (2020) examined the internal control (risk assessment) along with the firm's age, size, liquidity, board independence, complexity, annual volatility, leverage, and stock return on the firm's value of 67 companies listed in NSE financial services using their annual reporting data from 2007 to 2017 (11

years period). The results showed that management should focus on internal control, firm age, ownership, leverage, and complexity. Sterin (2020) examined how the audit committees impact firms' internal control in decision making and whether the internal control system offers quality information to which the expertise of the audit committee makes positive decisions. The findings indicated that internal controls provide a direct path through which the legal experts can perform efficient decisions and the related financial reporting results.

Sakawa and Watanabel (2019) examined the relationship between earning management and internal governance using 11,689 firm–year observations from 2006–2014. The findings indicated that the audit committee appointed in banks and the board of directors could help reduce opportunistic earnings management. However, internal controls are required to imply further effectiveness in enhancing earning quality.

2.9.3. Internal Corporate Governance Controls and Financial Performance

Numerous empirical studies examined the effective role of the internal control system in achieving good CG practices (Koutoupis & Pappa, 2018; Mahadeen et al., 2016; Oppong et al., 2016; Rae et al., 2017). Fadilah (2013) indicated that implementing internal control offers a significant contribution to good CG. Mihaela and Iulian (2012) stated that CG and internal controls should be considered together because good CG is not entirely efficient without adequate internal controls. Koutoupis and Pappa (2018) claimed that a solid and successful CG must incorporate transparency and internal controls. Nabi (2016) emphasised that implementing and elaborating adequate internal control activities will lead to good CG. Magu and Kibati (2016) argued that poor CG mechanism occurs due to the ineffective implementation of internal controls.

AL–Zwyalif (2015) investigated the role of internal controls to enhance CG in some insurance firms in Jordan; the findings showed that committing internal controls ensures and strengthens the success of CG and, in turn, the financial performance. Suyono and Hariyanto (2012) proved that CG and internal controls positively affect Indonesian firms. Asiligwa and Rennox (2017) established a linkage between CG and internal controls among Kenyan commercial banks; the findings confirmed such a relationship exists, which leads to enhancing the performance of firms and maximising the market value of shareholders.

Almaqtari et al. (2020) highlighted CG practices in India and Gulf countries. They brought out some essential insights on the CG mechanisms of Indian and Gulf countries' firms, such as the regulations, CG codes, internal controls, and financial performance. Haron et al. (2020) examined the CG mechanisms and their impacts on the performance of firms in Malaysia for 16 observation years. They found that the CG mechanisms such as board size, internal controls, and board independence have a significant positive impact on a firm's performance. They found that the agency theory is a dominant theory that influences the CG structure of Malaysian firms.

Agyei–Mensah (2016) highlighted the influence of CG elements on disclosing internal controls information by companies in Ghana using 110 firms throughout 2013. They investigated the annual reports, examined the codes for obtaining the internal control disclosure, and analysed the data using regression and descriptive statistics. The findings confirmed that the disclosure of internal

controls was insufficient for the firms that did not perform well, which caused misguidance for CG parties and stakeholders to determine the firms' performance. The findings also indicated that the board's independence has a positive impact in explaining the disclosure of internal control.

2.9.3.1. Board of Directors Characteristics

Empirically, several studies in the literature have attempted to underpin the idea of whether there is a significant linkage between the board of directors and financial performance. Still, there is no unanimity among scholars concerning this relationship. Muchemwa et al. (2016), Tulung and Ramdani (2018), and Wijethilake et al (2015) found a positive and significant relationship between the board of directors and the financial performance of firms. Hussain et al. (2015) revealed a positive relationship between board dependence and CG and firms' performance. Similar to the previous results, Adaa and Hanefah (2018) showed a positive correlation between the board size and the relevancy value of accounting information.

According to Kao et al. (2019), there is a substantial and favourable correlation between independent directors and a company's performance. Moreover, a study conducted by Linck et al. (2008) discovered that small companies demonstrate a more drastic rise in board independence. In contrast, large companies witness a more drastic reduction in the size of the board. Another study by Coles et al. (2008) demonstrated a negative relationship between the degree of R&D that resulted in enhanced performance and board independence. Likewise, the study by Bhagat and Black (2001) discovered results that indicated that greater board independence causes the efficiency in the value growth of a company to be reduced.

Meanwhile, other studies have pointed out that there is a negative effect on board of directors (independence and size) and company's performance, such as a study by Arosa et al. (2010) and Kutum (2015). The latter argued that there are no positive links between board independence, the board size, and board meetings or expertise on the overall return assets. Al–ahdal et al. (2019) empirically investigated the impact of CG on the financial performance of firms in India and Gulf countries. They found that transparency and disclosure and board accountability, and audit committee have a negative impact on a firm's financial performance.

Other studies have stressed that there is a relationship between board characteristics. However, such relations vary between each characteristic. Al–Matari et al. (2014) revealed that both board meetings and board size have a positive impact on the return and equity of the firms. Similarly, Ghabayen (2012) found empirical evidence that the size and independence of the board do not influence firm performance. Napitupulu (2020) attempted to address the issues in Indonesian firms and businesses such as fraud investments, bribery, corruption, abuse of authority, embezzlement of employees, which harm shareholders and the community. The study concluded that such issues arise mainly due to the lack of good CG mechanisms such as internal controls, board independence, and firms requiring good CG.

2.9.3.2. CEO Roles and Firms' Performance

The literature indicates that the CEO roles can substantially impact various management decisions. The characteristics of the CEOs such as gender, expertise, education, age, tenure, career background, shareholding, skills, experience, and duality could impact their decisions and behaviours (Malik et al., 2020; Moreno–Gómez et al., 2018; Ting et al., 2015). Recently there has been a surge of research interests in investigating the roles of CEOs on firm's performance considering several factors such as the variance decomposition of personal characteristics and stock market reactions (Badru et al., 2017; Burgelman et al., 2018; Farag & Mallin, 2018; Quigley & Graffin, 2017). Several studies emphasised the significant role of CEOs in formulating and executing strategies towards firms' successes and financial reporting quality (Huang et al., 2012; Liu et al., 2018; Whittington, 2019).

Over the years, various researchers have investigated the CEO roles concerning different CEO personalities and demographic characteristics such as gender (Brahma et al., 2020; Chen et al., 2016; Khan & Vieito, 2013; Perryman et al., 2016; Zhang & Qu, 2016), age (Serfling, 2014; Yeoh & Hooy, 2020; Yim, 2013; You et al., 2020), core self–evaluation (Hayward & Hambrick, 1997; Malmendier & Tate, 2005, 2008; Schumacher et al., 2020; Tseng & Demirkan, 2021), humility (Hayward & Hambrick, 1997; Malmendier & Tate, 2005, 2008; Schumacher et al., 2020; Tseng & Demirkan, 2021), narcissism (Al–Shammari et al., 2019; Chatterjee & Hambrick, 2007; Cragun et al., 2020; Tang et al., 2018), and confidence level (Burkhard et al., 2018; G. Chen et al., 2015; Kim & Jang, 2021). Various studies have indicated that the CEOs play an efficient role in the firms' effectiveness because they are responsible for the managerial decisions, formulate and implement strategies towards firms' successes and productivity (Barker III & Mueller, 2002; Liu et al., 2018; Momtaz, 2021; Nelson, 2005; Peni, 2014; Saidu, 2019).

However, CEOs' qualities, demographics, and personal characteristics may influence their roles, especially those related to the managerial influence on corporate decisions and the firm's outcome. Previous studies revealed that the newly listed firms with skilled and expert CEOs are prone to success and positively contribute to improving financial reporting quality and success. Therefore, we can conclude that the CEO characteristics such as experience, demographics, and personal attributes play significant roles in the corporate sector and formulating and implementing strategies, positions, teams, and decisions in firms. In addition, the research in investigating the roles of CEOs remain a field with abundant opportunities to examine the qualities of CEOs and to answer a variety of questions such as how the CEO characteristics (founder, power, ethnicity, ownership, compensation, religiosity, etc.) influence firm's performance and contribute to the sustainability of firms.

3. Conclusion

CG aims at lowering the gap between parties who share interests in the firm, improve investors' trust, reduce the cost of capital and create a committed environment, regulations and policies among parties in the firm, including relationships between shareholders, bondholders, and stakeholders. Good CG is an essential mechanism that ensures the survival and productivity, and

profitability of the firms. Good CG comprises several interrelated components such as the board of directors, management, audit committee, internal and external audit, and the internal control system as the key components that aid early detection of irregularities. Overall, there is a positive relationship between CG practices, mainly the internal controls, the board size, independence, and the firms' financial performance. In short, the findings of a narrative review on empirical studies reflect mixed results on the indicators of corporate governance. While the researchers agree that the indicators of corporate governance, mainly the internal controls and board characteristics, can provide more creative ideas and information that the company can utilise to enhance its achievement, they also found that CG has positive effects on a firm's financial performance. This review paper emphasised the relationship between board characteristics and internal controls for the survival and sustainability of good corporate governance supported by previous empirical studies in several countries. The practical implication of this paper recommends that the firms' effectiveness is related to good corporate governance and internal control systems. In terms of academic implications, this review paper is useful for researchers to identify the important variables necessary to attain good corporate governance and enables firms to be sustainable and achieve their goals.

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