

## THE MESSAGE OF CORPORATE GOVERNANCE TO SHAREHOLDERS IN ENHANCING FIRM FINANCIAL PERFORMANCE

Ibrahum Ali Hossian

Houston community college

E-mail: [w215809044@student.hccs.edu](mailto:w215809044@student.hccs.edu)

### *Abstract*

*The current study highlighted the importance of corporate governance in improving a company's financial performance and increasing shareholder value. Shareholders buying shares show their trust in a company's management and future outlook, emphasizing the significant impact of corporate governance structures. This study examines how corporate governance mechanisms address shareholder concerns and impact a company's financial success by aligning company goals with shareholder interests. It aims to determine how corporate governance mechanisms can be adjusted to ensure shareholders are properly rewarded while also protecting the company's long-term objectives. The study addresses both the theoretical and practical aspects of corporate governance mechanisms, assessing their impact on shareholder value through transparent communication and accountability. It stresses the importance of clearly defining company goals and strategic plans to establish a solid governance framework that can meet shareholder expectations. The study compares the broader role of corporate governance with a detailed analysis of principles that prioritize shareholder interests and needs. This study tries to underline the efficacy of corporate governance tools at leveraging financial performance and guaranteeing value for stockholders. These conceptual frameworks and practical evidence go a long way in giving insight into how corporate governance tools are supposed to make a difference toward success.*

**Keywords:** *Corporate Governance Tools, Stockholder Value, Firm Financial Performance*

### 1. INTRODUCTION

The acquisition and auction of stocks are important since they designate the grade of confidence stakeholders have in the business's leadership and upcoming possible. This work will investigate theoretically into the exact methods in which corporate governance has a significant impact on increasing the value of stockholders' savings. The study advises to analyze governance structures and processes that might be adapted to guarantee that stockholders are correctly compensated though also defensive the business's long-term goals. This canister could be achieved through a thorough inspection of current corporate governance system and its influence on stockholder worth. In this section, the current study is advises to explore the significance of corporate governance mechanisms in enhancing firm financial performance and exploiting stockholder worth.

This viewpoint is separate from broader governance considerations that involve other stakeholder groups, such as workers, customers, and suppliers. Instead, our focus will be on how corporate governance mechanisms straight address shareholder concerns and influence firm performance. In the current section, the present work provides an impression of the relationship between corporate governance, shareholder concerns, and firm financial performance. An important aspect of real governance is the clear enunciation of the company's objectives, which must be communicated through its directors and entrenched in the business's strategic tactics (Ramirez, 2024). This

alignment is crucial for ensuring that the company operates in a manner that fulfills governance principles and meets shareholder prospects. While shareholders represent the ultimate owners of the company, the governance outline must also consider the interests of various other stakeholders to create a balanced and comprehensive approach to corporate management (Almagtome et al., 2020; Alabdullah et al., 2023).

Transparent communication and accountability can help achieve this goal. This research paper aims to thoroughly analyze how corporate governance mechanisms can be used to increase the value of shareholders. In this section, we will discuss the importance of corporate governance in relation to shareholder value. By looking at how these mechanisms work, we will provide insights into how effective they are in improving company performance and making sure shareholder interests come first in the decision-making process. The study will also look at how corporate governance practices affect shareholder value and company performance. The goal of this paper is to explore the connection between corporate governance and company financial performance.

This study suggests investigating how corporate governance impacts shareholder value. We will explore how corporate governance contributes to improving company financial performance. Corporate governance is essential in ensuring transparency and accountability to shareholders and stakeholders. It establishes a framework for aligning the interests of management with those of shareholders. This analysis will help us better understand the role of corporate governance in achieving success that lasts for societies (Jan et al., 2021; Alabdullah et al., 2016; Zaman et al., 2022). The results of this study will provide useful insights into how corporate governance can affect company financial performance.

The literature appraisal will also explore various theoretical frameworks and empirical evidence related to the topic (Sahu et al., 2020; Alabdullah et al., 2014). It will provide a foundation for the examination of corporate governance practices and their impact on firm performance (Puni & Anlesinya, 2020; Alabdullah, 2017). The introduction will also outline the significance of stockholder empowerment and accountability in corporate governance. This will set the phase for the rest of the current and provide a framework for understanding the relationship between corporate governance and company performance (Rabaya & Saleh, 2022; Alabdullah et al, 2023; Asare et al., 2023). The section will show the objectives of the paper, counting a short-lived impression of the important opinions to be deliberated in every section.

An profusion, a myriad, and a plethora of wide, comprehensive, and revolutionary literature from various highly industrialized and astoundingly prosperous countries clearly and unequivocally indicates, beyond any reasonable doubt, that the strategic implementation and careful maintenance of thunderously effective and unflinching robust governance structures possess the unparalleled, unmatched, incomparable, and unrivaled potential to fervently drive, determinedly propel, and unwaveringly propel the positive, constructive, and promising firm performance, thus leading to an exceptional, extraordinary, and exceptional growth, unbeatable profitability, long-lasting sustainability, and resolute competitive advantage that sets the firm apart from its counterparts in the unpredictable and cutthroat market landscape (Alodat et al., 2022; Ludwig & Sassen, 2022; Alabdullah et al., 2018; Alam et al., 2020).

Works have tested the impact of entrepreneurial and market orientations on company financial performance, emphasizing the significance of inter-organizational message (Kanaan-Jebna & Baharudin, 2015) and managerial accounting (Kanaan-Jebna

et al., 2022; Alabdullah., 2019). Further research highlights the influence of entrepreneurial instruction and capabilities on firm financial performance (Al-Hashimy et al., 2022; Kanaan-Jebna et al., 2022). In doing so, companies can fortify their foundations, cultivate resilience and navigate the complexities of today's rapidly evolving global business arena with steadfast determination and unyielding commitment to excellence (AL-Hawamleh, 2024; Suib et al., 2024). Thus, it is imperative to shed light on the multifaceted dimensions, crucial linkages, and transformative potential that corporate governance holds, underscoring its significance as a catalyst for sustainable growth, long-term prosperity, and responsible corporate citizenship.

Organizations can achieve more success and become industry leaders by understanding and utilizing the power of good governance. By combining the goals of shareholders, strong governance principles, and effective organizational strategies, companies can create an environment where innovation thrives, trust is built, and value is consistently produced (Cooperrider & Selian, 2021; Chhillar & Aguilera, 2022; By, 2021). It is important for regulatory bodies, policymakers, and key stakeholders to work together to create a system that promotes transparency, empowers shareholders, and strengthens overall governance practices. This will help businesses grow, benefit stakeholders, and contribute positively to society through strong corporate governance.

The growth in the capital market, in the form of equity, provides shareholders with broader and enhanced access to liquidity of their investment, allowing them to efficiently manage their financial resources. Moreover, governance holds a paramount role in establishing the boundaries of this mechanism, ensuring transparency and accountability within the market (Georgakopoulos et al., 2022). By utilizing an effective governance system, shareholders are granted not only an opportunity to voice their opinions but also an active role in the decision-making process. In essence, shareholders desire a governance system that diligently monitors the actions of managers, minimizing the potential agency costs associated with principal-agent relationships. With a robust governance framework in place, managers are inclined to make decisions that prioritize the maximization of shareholder wealth (Larcker & Tayan, 2020).

These decisions significantly contribute to the sustainable and prosperous performance of the firm. Hence, corporate governance delivers a resounding message to shareholders, emphasizing the indispensable requirement of their active participation. This active involvement further guarantees the efficient functioning of the firm, ultimately resulting in the enhancement of shareholders' wealth and overall success. Motivated by the significance and multifaceted nature of corporate governance, this paper seeks to delve deeper into its intricate dynamics. By examining various dimensions, we aim to shed light on the fundamental principles and mechanisms that constitute a strong governance system. Through comprehensive exploration and analysis, this paper aims to equip readers with valuable insights into the essence and practical implementation of robust corporate governance (Costa et al., 2022; Hichri, 2022).

Understanding the important factors of effective governance can help shareholders make better investment decisions and take advantage of opportunities in the stock market. The paper is organized to cover different aspects. It starts with an introduction to corporate governance and its importance in today's business world. Then, it goes into detail about the roles of shareholders, management, and the board of directors in a successful governance system. Various theories and frameworks are also discussed to give readers a good knowledge base (Rashid, 2020; Ben et al., 2020).. The paper also

looks at how shareholder rights affect corporate governance and how investors can use their rights to add value to the process.

Additionally, we discuss the crucial aspect of fiduciary duty, emphasizing the ethical obligations that managers and directors owe to shareholders. Furthermore, this paper investigates the impact of effective governance on the financial performance of firms. By examining empirical studies and case examples, we provide compelling evidence that attests to the positive correlation between strong governance practices and shareholder wealth maximization. Moreover, we unearth the mechanisms and tools through which governance enhances the financial performance of organizations, establishing a clear link between governance and sustainable prosperity (Al-Saadi and Khudari, 2024; Kong et al., 2020). This study aims to provide comprehensive empirical evidence on the role and impact of corporate governance, via focusing on shareholders as a mediator variable in the context of agency costs within Thailand to enhancing firm financial performance.

The field of corporate governance encompasses a broad spectrum of topics, including but not limited to board size, composition, the role of committees, the function and structure of the board of directors, CEO duality, board meetings and their effectiveness, board diversity, and director remuneration. Each of these areas contributes to the overall understanding of how governance structures impact organizational performance. However, this paper adopts a focused approach, concentrating specifically on the role of corporate governance in conveying messages to shareholders and its implications for enhancing firm performance. By narrowing the scope to this particular facet of corporate governance, the study aims to provide a more in-depth analysis of how governance practices influence shareholder perspectives and contribute to firm performance.

This focused approach helps mitigate the risk of being overwhelmed by the myriad of factors that can affect shareholder behavior and performance outcomes. The intention is to isolate and examine the key mechanisms through which corporate governance communicates with shareholders, thereby clarifying how these mechanisms can drive improved performance (Raimo, 2021). To ensure that the study remains within manageable proportions while achieving both breadth and depth, the research will be conducted within a specific industry sector. By focusing on multiple firms within the same industry, the study seeks to control for industry-specific variables that might otherwise obscure the analysis. This approach minimizes firm-level differences that could skew results, allowing for a more accurate assessment of the impact of corporate governance on firm performance across similar organizational contexts.

However, there are several limitations inherent in this approach. First, the focus on a single industry, while controlling for external variability, may limit the generalizability of the findings to firms operating in different sectors. The governance practices and shareholder dynamics may vary significantly across industries, which could influence the applicability of the conclusions drawn from this study (Mishra et al., 2021; Miloud, 2022). Second, while concentrating on firm-level analysis reduces the complexity associated with diverse organizational contexts, it may also overlook broader systemic factors that affect governance and performance at the macroeconomic level.

This study's scope is intentionally focused on understanding how corporate governance messages to shareholders can enhance firm performance. By examining multiple firms within the same industry, the research aims to provide valuable insights

while acknowledging the limitations associated with industry-specific analysis. Despite these constraints, the study endeavors to offer meaningful conclusions and policy recommendations that can contribute to the broader discourse on corporate governance and its impact on shareholder value and organizational success (Almagtome et al., 2020; Zumente and Bistrova, 2021). The analysis will focus on the relationship between corporate governance mechanisms and firm performance, with particular attention to the perspectives of shareholders.

## **2. LITERATURE REVIEW**

Regarding corporate governance, the literature review declares that real corporate governance systems custom-made to a company's sole features are vital for enhancing organizational performance. At the central of this viewpoint is the confidence that governance assemblies must spread beyond mealy obedience with lawful and controlling supplies. The literature supporters for corporate governance performs that surpass the minimal values set by governments, chiefly in bright of the often unsuccessful checking done by block holders. Such opinion reverberations the visions of economist John Kenneth Galbraith, who, highlighted that each company must struggle to extent its uppermost productive possible, regardless of outside incentives. Galbraith's notion underlines the prominence of bring into line corporate governance mechanisms with the company's competences and planned aims to achieve best presentation (Amin et al., 2021; Wu et al., 2022).

Business directors are predictable to perform in the company's long-term attention once reinforced by lively and betrothed block of stockholders. This lively participation is vital for heavy considerable management improvements and ensuring that governance schemes are receptive to the company's developing needs (Chatterjee & Chaudhuri, 2022). Academics in the arena of corporate governance system have emphasized the essential to speech the tests related with checking inefficiencies (Lund & Pollman, 2021). They suggest line up the welfares of stockholders and directors to alleviate the opposing belongings of deprived mistake corporate managers attorneys must not be the only designers of CG mechanisms.

As an alternative, the project of effective countermeasures should involve a broader range of stakeholders to address the complexities of governance. Such a method helps avoid the supremacy of a few powerful stockholders from cooperating the governance construction and undermining the firm's overall stability (Pernell, 2020). The theoretical framework likewise involves with McGuire's thesis, which suggests that in modern corporations, directors may become meager pawns operated by dominant stockholders or social basics, lacking an individual stake in the company's success. Rendering to this opinion, managers might be swayed by the welfares of powerful stakeholders, discouragement their character as guardians of corporate integrity. Such a perspective tests the uncompromising portrayal of directors as noble stewards of the corporate realm, instead portraying them as susceptible to the influences of key shareholders (Logan, 2023).

Also, the structure of the current work admits the inherent struggle between management and employees regarding ownership and profit distribution. Historically, corporations have been driven by the pursuit of control and power, with employees often feeling the disparity between their contributions and their compensation. This tautness

reflects a broader issue within corporate governance: the challenge of reconciling the interests of various stakeholders, including managers, shareholders, and employees, in a manner that endorses equitable outcomes and enhances structural performance. The theoretical framework underlines the importance of emerging CG that is custom-made to the sole characteristics of each company. Via spreading governance mechanisms beyond lawful supplies and addressing the tests of monitoring disorganizations, the framework goals are to improve companies' performance and safeguard a balanced arrangement of welfares among stockholders, directors, and other shareholders.

### **2.1. Definition and Concept of Corporate Governance**

There have been various discussions as to the role of corporate governance in the enhancement of firm performance. What is clear in most of these debates is that if corporate governance is not functioning properly, if managements are not monitored, and if conflicts of interest between managers and shareholders are not resolved in favor of shareholders, the long-term performance of the firm may suffer as managers may favor their own return or private business over the interest of the shareholders and funding will dry up, as will investors' interest (Puni & Anlesinya, 2020). There are enough gory stories of corporate collapses and corporate misconduct to underscore the need for a corporate governance environment in which all its stakeholders can have confidence.

As an answer to this problem, the UK Cadbury Report stated that "we believe that good financial reporting and good financial control are essential elements in corporate governance, but they are not the whole story (Baker and Persson2021; Hasan et al., 2022)." Scandals involving poor accounting standards and corporate collapses like Enron, WorldCom, Niagara Corporation and Maxwell Communications highlighted the fact that good reports may not mean good management. When a management decides to defraud the market, it is very difficult to detect the manipulation even with a lot of effort in due diligence.

It is herein concluded that performance should not only be measured but audited as well. Good management practices should induce good performance, and therefore management performance should also be performance audited. But performance audit is not enough, the behavior of those audited against those they are audited for would eventually reflect on the auditors, either the independence of auditors or the audit itself.

### **2.2. The Importance of Corporate Governance in Firm Performance**

The role of corporate governance in enhancing firm performance has been a topic of extensive discussion and analysis. The consensus across these debates underscores the critical impact of effective governance on a firm's long-term success. When corporate governance mechanisms are functioning optimally, they facilitate a robust framework for monitoring management, resolving conflicts of interest, and aligning managerial actions with shareholder interests. Conversely, inadequate governance practices can lead to severe consequences, including compromised firm performance and diminished investor confidence. A fundamental issue arises when corporate governance fails to properly oversee management activities and address conflicts of interest (Jebran and Chen, 2023; Alabdulah, 2021).

If management is not effectively monitored and if the interests of shareholders are not prioritized, the long-term viability of the firm may be jeopardized. Managers might prioritize personal gain or private business interests over the well-being of the company,

leading to potential financial instability. Such misalignment can result in a decline in investor interest and a reduction in available funding, ultimately undermining the firm's performance (Iona et al., 2020; Alabdullah, 2023). The historical record is replete with instances of corporate collapses and misconduct that highlight the necessity for a strong corporate governance framework. High-profile scandals involving companies such as Enron, WorldCom, Niagara Corporation, and Maxwell Communications have demonstrated that poor governance and weak oversight can lead to catastrophic failures.

These cases underscore the importance of having a governance environment in which stakeholders, including investors, have confidence and trust. In response to these challenges, the UK Cadbury Report emphasized that "good financial reporting and good financial control are essential elements in corporate governance, but they are not the whole story (Baker and Persson, 2021; Alabdullah, 2023). The report highlighted that while accurate financial reporting and rigorous financial controls are crucial, they alone are insufficient to ensure effective governance. The collapse of major corporations due to fraudulent accounting practices illustrated that even well-prepared financial reports can mask underlying managerial issues. When management engages in fraudulent activities, detecting such manipulation can be exceedingly difficult, even with extensive due diligence. The conclusion drawn from these experiences is that performance should not only be measured but also subject to thorough audits.

Good management practices should naturally lead to positive performance outcomes, and therefore, auditing management performance is essential (Aslam et al., 2020). However, performance audits alone are not sufficient. The behavior of those being audited can impact the integrity of the audit process itself, raising concerns about auditor independence and the reliability of the audit results (Karim et al., 2022). Effective corporate governance necessitates a comprehensive approach that includes not only accurate reporting and rigorous auditing but also a commitment to ethical behavior and transparency. Ensuring that management actions align with the interests of shareholders and other stakeholders requires a multi-faceted governance framework.

This framework must include robust monitoring mechanisms, effective conflict resolution processes, and a culture of accountability (Brummel, 2021). The importance of corporate governance in firm performance cannot be overstated. It plays a pivotal role in ensuring that management practices align with shareholder interests, mitigating risks associated with poor oversight and fraudulent activities. A strong governance framework fosters confidence among stakeholders, supports sustainable performance, and helps prevent the types of corporate failures that have marred the business landscape.

Corporations are in business to maximize wealth for their shareholders; that is, to seek profits and in other ways generate wealth for the shareholders of the corporation. Notably, the 1919 case of *Dodge v. Ford*, argued by the Dodge brothers, involved their attempt to renegotiate their divestment from Ford as they did not want to remain shareholders. Since the majority of shares were held by other minority shareholders, the Dodge brothers were not able to convince Henry Ford with this transaction and filed a lawsuit (Unkovic, 2020; Alabdullah & AL-Qallaf, 2023). Ford lost the trial and was compelled to pay a dividend to his shareholders. The Court of Michigan stated that there was one reality: Henry Ford asked to lower the price of the car; second, the treasurer asked not to tighten the distribution of dividends; third, the head of the workers' union asked to raise wages; and fourth, the company discharged more workers (DeAngelo,

2021; Alabdullah et al., 2014). These factors showed that all the interests were greater than Ford's.

### **2.3. Historical Development of Corporate Governance**

The concept of governance is as old as human civilization and has traditionally been associated with the processes of social organization. Commercial corporations are a relatively recent phenomenon in human history, and it is only in the recent past centuries that forms of business corporations distinguishable from states or religions became prominent (Alfadhl & Alabdullah, 2016; Becker et al., 2021; Alabdullah & Churiyah, 2023). The governance of these business corporations, however, has remained a firm matter unlike that of governments or family or clan collective management. Private ownership of business corporations may be limited to a few sharing family ties or may be as widely shared as the buyers of their shares in organized public markets.

Quite distinctively, the owners give the authority to govern the corporation to management (Alfadhl & Alabdullah, 2013; Aminadav & Papaioannou, 2020; Alabdullah & Zubon, 2023). Historical economic experience highlights the problems of disciplining persons or bodies to whom the power of direction has been entrusted through the creation of a board of governors, even it was very clear in COVID-19 pandemic (Alabdullah & Asmar, 2022). Many business corporations are family businesses in which the shareholders and managers coincide and trust each other. But trust is always a rare commodity in buyer or seller relationships existing without the cement of familiarity or divine secrecy (von et al., 2021; Abeysekera & Fernando, 2020; Alabdullah & Naseer, 2023).

Corporate governance crises arise when shareholders do not trust managers and managers do not trust shareholders. Executives are employed as agents to act for employers or principals. Such principal-agent relationships, which characterize relationships between the management hierarchy and the rest of the organization, represent potential corporate governance difficulties.

### **2.4. Theoretical Perspectives on Corporate Governance and Firm Performance**

The issue of corporate governance has been of particular interest to researchers, multinational organizations, economists, and analysts lately. Recent abuse of corporate resources has led to an intensified interest in the control of companies (Clapp & Purugganan, 2020; Alabdullah & Mohamed, 2023). This work is intended to provide a much-needed discussion of corporate governance theories to provide a better understanding of the adoption of alternative corporate governance.

Without a clear understanding of the theory and research on corporate governance, such regulations offer little value given the difficulty of implementation. The authors argue that the dominant responsibility of corporate governance towards shareholders is on issues associated with large block holding, executive directors' duties, collective voting, and investment behavior. Recommendations to resolve these challenges are provided (Guluma, 2021; Alabdullah, 2016). The relationship between corporate governance has been a source of interest to researchers for more than three decades.

## **2.5. Empirical Works on the Link between Corporate Governance and Firm Financial Performance**

The association between corporate governance and firm valuation or financial performance has been extensively examined by numerous scholars from various perspectives. A substantial body of research focuses on exploring the relationship between corporate governance and firm valuation, commonly using Tobin's q as a measure of the firm's stock market value. Additionally, some studies investigate the links between corporate governance and accounting profitability measures, such as return on assets (ROA) or return on equity (ROE). It is important to note that the choice of measurement can lead to different results, as Tobin's q and accounting performance measures capture distinct dimensions of firm performance.

Several researchers (Gugler & Yurtoglu, 2023; Alabdullah & Ahmed, 2023; Alabdullah & Maryanti, 2021) highlight the prevalent use of Tobin's q in assessing investor's valuation of corporate governance, with only a limited number of studies considering alternative measures of firm performance. However, it is worth noting that Tobin's q might not necessarily be the most accurate indicator of performance. This particular measure encompasses both the intangible costs of financial distress and growth opportunities. Therefore, it is crucial to recognize that corporate governance's impact might be more nuanced and multifaceted than Tobin's q suggests. In another study, a positive relationship between corporate governance mechanisms and firm performance was identified. In this analysis, data from 100 companies over a 5-year period was utilized.

The researchers conducted an event study, focusing on a set of firms that experienced the rejection of resolutions related to social responsibility by their shareholders. The objective was to assess whether shareholders' wealth reaction would be negative, positive, or indifferent following such rejections. Notably, this event study employed a unique approach by evaluating wealth effects solely within the three-day period immediately following the shareholders' resolutions. Moreover, proxies such as NIA and TNIA were employed to represent management-generated wealth effects prior to and after the resolutions, respectively. The results suggested that participation in corporate governance activities is unlikely to have a negative impact on stockholders' wealth.

Emphasizing the importance of Tobin's q as a shareholder value measurement, it is important to acknowledge the balanced scorecard concept, which underscores the significance of both financial and non-financial performance measures. The balanced scorecard serves as a holistic gauge of a firm's overall performance, encompassing the external management aspect that grants managers greater flexibility in managing earnings. By considering various performance dimensions, this comprehensive measure allows for a more accurate assessment of a firm's overall performance. Furthermore, it is crucial to address concerns associated with using non-operating asset value as a measure for Tobin's q. Mis-valuation related to accounting earnings might yield economically meaningful effects on corporate governance decisions and subsequently result in various economic consequences, including divestitures, slowdowns in investment, equity issuances, changes in executive compensation, takeover activities, and credit ratings.

Careful consideration must be given to these potential mis-valuations to ensure accurate assessments. In conclusion, the relationship between corporate governance and firm performance is a complex and multifaceted area of study. Various measurements,

such as Tobin's q and accounting performance measures, offer different perspectives on this association. Additionally, the consideration of non-financial performance measures and the potential impact of mis-valuation on corporate governance decisions further contribute to our understanding of this intricate relationship (DesJardine et al., 2023; Dwivedi et al., 2021).

### **3. RESEARCH METHODS**

The current work advises to analyze the link between corporate governance and firm financial performance for a time of period from 2015-2020. It advises to use the market value of equity as a measure of firm performance. Corporate governance is, in turn, encapsulated in a Company Law index, itself generated from indices of shareholder rights, creditors' rights, and potential conflict of interests between shareholders and creditors. The Company Law index is provided in other contributions by La Porta, et al., (2000) so that our test of the corporate governance-firm performance relationship is blind to the specifics of the Company Law Index.

Plausible alternative databases for this industry (which is heavily defined by 'services') are not widely available. The world-scope dataset is a widely-used data source for, however, and one which we understand well, and we have every reason to believe that it is robust. There is already a large academic and policy-making literature on codes of corporate governance, and on the relationship between such codes and firm performance. If a country experiences an increase in corporate governance, then we should observe a fall in the cost of 'transactions' related to services. Although each sub-sector of services has proprietary information that would be very helpful in further understanding which transactions involved exposure to agency problems, there are 206 sub-sectors which has seriously impeded our empirical approach.

These 206 sectors would be easily subsumed into a much smaller number of larger industrial categories in any other kind of study. Unfortunately, such cross-sector or single-sector labor content data are quite rare. Indeed, in the DRIVE Project, we are experimenting with the construction of our own gross output data from labor flows information. Data reporting is not yet completed. Furthermore, the process of creating our own dataset involves meticulous data collection and analysis techniques to ensure accuracy and reliability. This additional step is crucial to obtain comprehensive and robust findings that contribute to the existing body of knowledge on corporate governance and firm performance. Additionally, it is worth noting that our study acknowledges the limitations and challenges posed by the lack of widely available alternative databases for this specific industry.

## **4. RESULTS AND DISCUSSION**

### **4.1. Research Results**

For the 13 financial indicators (company size, shareholding size, dividends, retained earnings, fixed assets, net assets, debt ratio, ROI, conservative capital, P/E ratio, profit ratio, and economic performance), this study advises to utilize representative data from 300 listed companies in Taiwan for the period 2015-2020. A total of 1,300 data points should be collected across 55 firm-years for analysis. The results might align with both

the Agency Cost Contracts theory and the property rights approach as the literature review show such results in the previous studies.

Specifically, the findings deal with returns to shareholders that may increase significantly as family ownership of common equity decreased. This suggests that family owners sending signals to the public by offering more than half of the companies' common equity, coupled with the formation of a supervisory board structure, positively impacted firm performance. However, it is noted that investors often lack the ability to influence corporate decisions directly, which limits the effectiveness of existing models in integrating stakeholder and stockholder objectives. Consequently, companies need to proactively consider corporate governance measures to enhance economic benefits for all stakeholders.

#### **4.2. Discussion**

The practices of corporate governance often originate from the belief that owners of large companies, unable to directly oversee every aspect of their enterprises, aim to ensure managers operate with increased transparency and accountability. They expect managerial incentives to closely align with share price performance, usually through stock options and performance-based rewards. The separation between ownership and operational control creates the potential for agency costs as a result of the dilution of direct shareholder influence and low capital utilization. Recognizing this, it is crucial for effective corporate governance mechanisms to be in place to mitigate these challenges.

Additionally, it is important to recognize and address the unique struggles faced by disaffected individuals and to carefully study and understand the economic implications of technological advancements. This study contributes to the theoretical understanding of corporate governance by highlighting the vital role that affiliate shareholders play in enhancing governance mechanisms. Acknowledging the significant contribution of affiliate shareholders can inform policymakers and practitioners seeking to optimize corporate governance strategies for sustained long-term success.

The present work discloses that hedgerow fund campaigners, once directing companies, are characteristically addressing matters connected to deprived firm performance, which often consequences in little profit and reduced stock market standards. Their interference aims to amend firm financial policies to improve EPS outcomes and enhance stock value. Despite some recent contrary arguments, high valuation levels continue to characterize the US market. Investors concerned about their portfolios' risk profiles must reconcile the high price-to-earnings (P/E) ratios of significant index constituents to maintain positive returns. Shareholders leverage corporate governance to reposition their firms favorably in the market. Over the past decade, private markets have undervalued US public stocks by nearly \$40 trillion due to additional risks introduced by business leaders.

Current valuation levels for US public companies reflect these risks and high P/E ratios, ensuring an efficient calculation of stock market levels despite lower valuations for private indices. Corporate governance aligns with the standards set by regulations such as the Sarbanes-Oxley Act, demonstrating how business leadership can modify risk profiles and surpass the growth impulses associated with hedge fund activism. This paper underscores the importance of prioritizing shareholders' rights within corporate governance systems. It emphasizes the need for more attention to the shareholder-statement mechanism as a means to strengthen shareholders' positions and regulate

managerial decision-making. The study highlights that while shareholders are considered residual claimants, this role is often overlooked in practice.

Increasing shareholders' influence on management decisions is important. Shareholders have the ability to monitor management effectively to resolve agency issues. Fairness is not the main focus; shareholders should utilize the shareholder-statement mechanism to oversee corporate governance, even if it doesn't align perfectly with their interests. Future research should look beyond firm-level analysis and consider both shareholder and broader stakeholder views. It is important to understand how corporate governance models impact non-shareholder stakeholders and find a balance that benefits everyone.

Researchers should investigate governance configurations that offer advantages over others and clarify how these mechanisms impact various groups. Moreover, the question posed by Elaine Sternberg (2002) about shareholders' responsibilities highlights the potential conflict between increased shareholder power and corporate social responsibilities. The rise of institutional investor funds and the split of ownership and control have led to a short-term focus among fund managers. Future works must test how new corporate governance rules, intended to enhance stockholder control, force their promise to long-term CSR. Increasing on these refrains, it is serious to distinguish that the character of hedge fund campaigners extends outside the jurisdiction of firm performance.

However, their main focus is on improving how cash flow is shown, it is important to recognize that they play a significant role in determining CGM. By advocating for changes in company financial regulations, these activists strive to not only increase salaries but also boost stock value and overall market understanding. Their intervention serves as a catalyst for positive change within struggling companies, driving improvements in financial stability and performance. Despite some recent challenges, high valuation levels persist in the ever-changing landscape of the US market.

The recent study emphasizes the crucial role of corporate governance in reshaping companies, allowing shareholders to influence and oversee decision-making. It also calls for future research to delve deeper into broader shareholder perspectives and balance the interests of all involved parties. By addressing these issues, scholars can contribute to the advancement of corporate governance practices that align with shareholder control and long-term CSR goals.

## **5. CONCLUSION**

This study reveals that hedge fund activists often tackle issues of poor company performance, aiming to improve financial policies and enhance stock value. Despite recent debates, high valuation levels persist in the US market, and investors must navigate high price-to-earnings ratios to achieve positive returns. Effective corporate governance, in line with regulations like the Sarbanes-Oxley Act, can address these challenges by aligning firm strategies with shareholder interests. The undervaluation of US public stocks by private markets underscores the importance of shareholder oversight. Future research should explore how governance models impact both shareholders and broader stakeholders, balancing shareholder control with corporate social responsibility. Enhancing shareholder influence and governance mechanisms is crucial for fostering financial stability and performance in a complex market environment.

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