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Governance and Business Ethics (Arab Countries)

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Governance and Business Ethics (Arab Countries)

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Abstract- Corporate governance is an important issue in the regional and international organizations, and interest in this issue has emerged as a series of different financial crises that rocked many companies and triggered by financial corruption, lack of control, experience, skill, lack of transparency, in addition to mismanagement, the loss of money has led many investors to turn to companies that implement the concept of corporate governance. As a result, the concept of corporate governance has become one of the main pillars of economic units, and due to the growing interest in the concept of governance, many organizations have been keen to study this concept and analysis, the most important of these institutions are the International Monetary Fund and the Organization of Economic Cooperation and Development.

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I. INTRODUCTION

The emergence of financial and administrative corruption, especially in developing countries, led to widespread poverty, ignorance, insecurity and morality, and increased bribery, calculated and mediated, financial and administrative corruption is one of the most serious problems facing institutions and companies, and to achieve transparency and justice, and achieve protection for shareholders, the rules and controls are applied. These rules emphasize the importance of adherence to the provisions of the law, and adherence to the mechanisms and rules by companies to reduce financial corruption and corruption. Dare and increase the efficiency of its performance and thus increasing local and foreign corporate investor confidence. Corporate governance is an important issue in the regional and international organizations, and interest in this issue has emerged as a series of different financial crises that rocked many companies and triggered by financial corruption, lack of control, experience, skill, lack of transparency, in addition to mismanagement, the loss of money has led many investors to turn to companies that implement the concept of corporate governance (Karama, 2012). As a result, the concept of corporate governance has become one of the main pillars of economic units, and due to the growing interest in the concept of governance, many organizations have been keen to study this concept and analysis, the most important of these institutions are the International Monetary Fund and the Organization of Economic Cooperation and Development (Moses, 2010). The cost of financial

corruption and mismanagement has become a burden on economic companies, which led to the demand for the existence of ethical and professional controls and principles to achieve trust and credibility, so corporate governance came in response to the appeal of shareholders in order to reduce financial corruption and administrative deviation and is considered one of the most important issues that attracted attention of regional and international organizations, both in developed and developing economies, also corporate governance has become increasingly important as a result of the tendency of many countries in the world to shift to capitalist economic systems, which rely heavily on private companies to become corporate governance which is considered as one of the cornerstones on which economic units should be based and aim to achieve quality and excellence in performance by enhancing the behavior of economic unit management in terms of exploiting the economic resources available to achieve the best possible benefits for all stakeholders and the society at large. It has become necessary for investors to look for companies with suitable structures to exercise corporate governance. One of the most fundamental principles underlying the corporate governance process is disclosure and transparency, and investors must build trust in each other to provide stimulation in national investment.

II. RESEARCH PROBLEM

The problem of research is Represented in the existence of financial and administrative corruption in some organizations and this negatively affects the society as a whole, so the research problem that the research is trying to address focusing on governance mechanisms that would reduce the problem of financial and administrative corruption that companies suffered,

a) *Research questions*

This research came to answer the following questions:

1. Does governance help reduce financial corruption?
2. Does governance help reduce administrative corruption?
3. What are the principles of corporate governance?
4. What are the mechanisms of governance and their role in reducing financial and administrative corruption?

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b) Objectives of the study

The research aims to shed light on the concept of governance, its emergence and development, what it is, its importance, as well as to review the most important mechanisms, it also aims to draw attention to all responsible parties to the risk of financial and administrative corruption, and the role of governance mechanisms to reduce administrative and financial corruption.

c) Reasons for choosing a topic

The costs of financial and administrative corruption are increased which represented as the cost of the transaction, and hence the price paid by the consumer for the goods or beneficiaries of the service paid by the company providing the bribes, accordingly, priority is given to private projects and neglect of important national projects for no reason just to enable government decision-makers to obtain large and fast bribes and financial benefits and other privileges at the expense of society.

III. RESEARCH METHODOLOGY

The researcher adopts the descriptive analytical method of the research topic, and this methodology is applied in many researches and studies where the researcher has seen a number of studies and research published in specialized scientific fields, and published on the Internet.

IV. TERMINOLOGY

a) Corporate Governance

A set of procedures and rules through which the management and control of the company, by regulating the relations between the executive management and the board of directors and other stakeholders, and shareholders, as well as the environmental and social responsibility of the company.

b) Corruption

It is the behavior of the public or private service owner who is doing harm to the state economy by increasing the burden on the public budget or increasing the burden.

c) Administrative and Financial Corruption

It is a negative phenomenon that has spread in recent years, where office holders exploit their positions by accepting bribery and nepotism.

d) Governance (concept, importance, objectives)

After several discussions in the Arabic Language Academy to arabization the term (Corporate Governance), it was concluded that the proper term for this term is (Governance). The term has been adopted among a range of other synonyms such as "corporate governance" and "governance" (Said, 2003). Governance is defined as a 'practical state and direction'

representing an immune system that protects the integrity of all behaviors within companies. Governance is a management process exercised by the supervisory management authority both inside and outside companies (Michael, 2005). It is also defined as a set of contractual relations between the management of companies and their shareholders and stakeholders, through the creation of policies and procedures used by the company to manage its affairs, and direct its business to ensure enhanced performance, disclosure, accountability and transparency of the company, and develop long-term benefits for shareholders, taking into account the interests of the parties. (Demirag, 2000). It is also known as a method that explores how to ensure or stimulate good governance and forecasting in public shareholding companies through mechanisms such as contracts, legislation, or organizational structure designs, often limited to improving financial performance, such as achieving the best return on investment. (Saleh, 2002). The concept of Corporate Governance is concerned with creating and organizing the proper practices and practices of the Company's management, in order to preserve the rights of its shareholders (shareholders, bondholders), employees of the company, stakeholders and others, by investigating the implementation of contractual relations between them and using financial and accounting instruments in accordance with the disclosure standards. And due transparency (Kabbah, 2008). It is the (laws, rules and standards that determine the relationship between the management of the company on the one hand and shareholders and stakeholders or parties associated with the company (bondholders, workers, suppliers, creditors, consumers) on the other hand (Haidar, 2009). The Organization for Economic Co-operation and Development (OECD) defines it as "a set of relationships among the management of the company, the shareholders, the board of directors and other shareholders" (Freeland, 2007).

Another sees it as "the sum of the game rules used to manage the company from within, and for the board to oversee it to protect the financial interests and rights of shareholders". There is no one term for this concept, some see it economically as the mechanism that helps the organization to obtain financing, including inflating the value of the company's shares and continuing in the long term, others know it legally as referring to the nature of the contractual relationship in terms of being full or incomplete, which determines The rights and duties of shareholders and stakeholders on the one hand, and managers on the other, and a third party that looks at it socially and ethically, directing the organization's social responsibility, in protecting the rights of minority or small investors, achieving fair economic development and protecting the environment (Nisman, 2009). Based on the foregoing, the researcher believes that the concept of governance is a system

centered around a set of mechanisms and methods of control to work on the Reduction of the problems faced by institutions, which contributes to raise their efficiency and protect the rights of workers, and achieving equity and justice among shareholders.

e) *Importance of Governance*

Corporate governance is one of the key elements in improving economic efficiency and economic growth, therefore, the integrity, robustness and strength of the corporate sector positively affects macroeconomic growth, as well as enhancing investor confidence, that corporate governance includes a range of relationships between the management of the company, its board of directors, shareholders and other stakeholders. The degree to which a company complies with key corporate governance measures is the most important and increasingly important factor for investment decisions, and the impact of governance on these decisions is through the conviction of investors to the level of contribution or financing in them, especially as the investment process and in all cases is a degree of risk has been a financial crisis has cost investors huge losses, which led them to scrutiny and evaluation to ensure the implementation of rules and laws and standards of governance before speeding up on investing in companies (Ibrahim, 2008).

f) *Governance Objectives*

The main objectives of corporate governance can be summarized in the following points (Al-Bashari, 2008).

1. Transparency, disclosure and anti-resistance institutions for reform.
2. Apply accounting standards to prevent corruption and mismanagement.
3. Prevent the abuse of power and achieve accountability.
4. Inflow investment and encourage flow, develop savings and maximize profitability.
5. Existence of laws, legislation, and procedures with clear and precise procedures stipulating how and when to conduct privatization of companies.
6. Strong internal control system.
7. Justice and neutrality in administrative practice.
8. Protecting shareholders and campaign documents, taking into account the interests of labor and workers.
9. Increase confidence in the national economy and deepen the role of the market and increase its ability to mobilize savings and investment rates.
10. Maintain minority rights or small investors.
11. Encourage private sector funding, support and competitiveness and help it to obtain financing and generate profits and create new jobs.

V. CORRUPTION (CONCEPT, CAUSES, MANIFESTATIONS, EFFECTS)

a) *Corruption Language*

Means damage and away from integrity and righteousness (Nasser, 2008).

b) *Corruption by convention*

In terms of behavior, corruption can be considered an inherent tendency of the person to practice wrong behaviors, because the human nature is uncontrolled nature and in the absence of legal accountability and controls and the lack of preventive and remedial measures that tend to lack discipline and chaos (David, 2008) Underdeveloped societies are a result of poverty, ignorance and underdevelopment, while in developed societies it is a natural consequence of the absence of moral and religious motivation (Tishore, 2005). Transparency International's point of view is "abuse of public service for private benefit and gain" (Al-Shawawra, 2009). Corruption is a situational phenomenon that may be

c) *Causes of Corruption*

Weakness of cultural and religious motivation and the spread of poverty and ignorance in society are among the most important reasons that help to spread the phenomenon, and among the reasons that led to the spread of this phenomenon is the lack of adherence to the principle of balanced separation of powers and weak administrative governance, and the weakness of the professionalism of public and private regulatory agencies in the state and society corruption. The political, social and economic transformations taking place in countries suddenly and unintentionally, the inability of public and private sector workers to meet the requirements of living and decent life due to low salaries, the absence of moral and religious motivation and inadequate application of laws and regulations. Of force.

d) *Manifestations of corruption*

Expression of the spread of corruption phenomenon is a very serious phenomenon in society, this phenomenon works to neglect the application of the standards of job performance and the decline of interest in the public interest, working on the degradation of moral values and principles and the spread of vice and crime among members of society, and works on the deficit and failure to attract foreign investment and high Domestic capital Escape and emigration, a sense of injustice, frustration, a sense of lack of belonging, widespread hatred, poverty, unemployment, social tension, inequality and the emergence of social conflicts and the spread of political and social hypocrisy The absence of democratic life (Mazen, 2006). Financial and administrative corruption is an undesirable act of treatment. It represents the actions and laws of policies

that take effect in the public interest, for the purpose of achieving personal interests at the expense of society, through bribes, privileges, and abuse of power and authority in official institutions. Some of the most important manifestations of financial and administrative corruption are (Al-Qaryouti, 2001).

1. Bribery: Is the giving or receiving of any gift.
2. Patronage: Any passing what the organizations want through their money without their entitlement to it at all
3. Favoritism: Any preference of one side over the other unfairly.
4. Mediation: Any intervention of a person with status.
5. Extortion and forgery: for the purpose of obtaining money from persons using his position.
6. The looting of public money, black market and smuggling: Using the powers granted to the person or fraud or exploitation of the job site to dispose of money in secret.

e) *Reasons for the emergence of financial and administrative corruption*

Every society has negative and positive phenomena, and every positive or negative phenomenon has reasons to emerge. The World Bank has identified a set of reasons for the emergence of financial and administrative corrupt Most notably (Suleiman, 2006).

i. *Political reasons*

Weak political administration is one of the causes of financial and administrative corruption, where this administration can coexist with corruption, and has no initiatives to combat it, even if they have the sincere and serious desire for reform, the weak political administration cannot face corruption in any way possible, and the role of reformers remains confined to chants, chants and wishes that are useless, and that the absence of a political state leads to the absence of a state of constitutional, political and legal institutions, and here there is a feeling of self-will to fight corruption, under the threat of life by kidnapping, murder, exclusion and marginalization, also the state's oversight mechanisms have been prolonged, as the government cannot hold the administration accountable for its work in corruption, and the judiciary's hand does not extend to state officials no matter what is known or said.

ii. *Economic reasons*

These include low wages, salaries, unemployment, high income disparities and low living standards in general, as well as the large number of suspicious commercial transactions resulting from brokerage operations in which financial corruption is widespread and the lack of economic efficiency in the country.

iii. *Social reasons*

It is evident when everything becomes a price that is measured in money, when an employee performs a certain job duty and takes a price. Corruption is at the heart of the culture of society is impossible to cure, corruption produces only more corruption, and corrupt does not see corruption as a defect, and here corruption is a collar that needs to be broken by a supernatural force (Sullivan, 2008).

iv. *Corporate Governance Rules*

Corporate governance is mainly related to the behavior of different categories related to companies, so there is a set of characteristics that must exist in these behaviors in order to achieve the purpose behind the application of this concept, these characteristics constitute the main pillars of corporate governance, the most important of which are as follows (Rihawi, 2008):

v. *Transparency*

That is to provide a clear and true picture of everything that happens, to ensure confidence, integrity and objectivity in the policies of the management of the organization, as well as ensure the timely and proper disclosure of important topics, and this feature provides for the sharing of accounting information and financial and non-financial disclosure, and that the information is correct, clear and complete to all stakeholders.

vi. *The responsibility*

It is intended to provide a clear organizational structure that identifies points of authority and responsibility, and to hold officials and decision-makers accountable for their responsibility to the company and shareholders.

vii. *Accountability*

It is a rule that the decision-makers in the company or those who carry out the business should be held accountable for the results of their decisions and actions towards the company and the shareholders, and find a mechanism to achieve them (Abdel Azim, 2008).

viii. *Clarity*

The financial statements and reports are intended to be clear, transparent and fair in their preparation, to achieve this, management by the Audit Committee must seek a general understanding of the financial statements.

ix. *Independence*

It is a mechanism that reduces or eliminates conflicts of interest, this mechanism starts by the formation of boards and the appointment of committees to appoint an independent, competent and qualified external auditor, who performs his work in accordance with professional care and assets, to provide confirmation or endorsement that the financial statements genuinely represent the reality of the financial position and performance of the company.

x. *Justice*: This means ensuring equal treatment for all shareholders.

f) *Manifestations of financial and administrative corruption*

The phenomenon of administrative and financial corruption is manifested by the actions of those holding public office and employees who are weak in spite of the interference and similarities among them, but it can be summarized as follows (Ruqaya, 2012):

- Favoritism: It is the implementation of actions for the benefit of an individual belonging to the person such as the family or party or region without being entitled to it.
- Bribery: obtaining funds or other benefits in order to refrain from its implementation of work.
- Mediation: Intervention for the benefit of an individual or group without adherence to the necessary competence and work assets such as the appointment of a person in a particular position for reasons of kinship.

g) *Effects of financial corruption*

Financial corruption has a cost, especially in public companies, where financial gains and other privileges are obtained at the expense of society. In general, some of the economic effects of corruption can be perceived as found by researchers' studies as follows:

1. Corruption contributes to the low efficiency of public investment and the poor quality of public infrastructure, due to bribes that limit the resources allocated to investment and misdirect or increase the cost.
2. Corruption has a direct impact on the size and quality of foreign investment resources because of their potential transfer of skills and technology, studies have shown that corruption weakens these investment flows and may disrupt them, and thus contribute to the low volume of taxes and thus the decline of human development indicators, especially in relation to indicators Education and Health.
3. Corruption is linked to the deterioration of the distribution of income and wealth, through the exploitation of influential people to their privileged positions in society and the political system, allowing them to capture the bulk of the economic benefits provided by the system in addition to their ability to accumulate assets continuously, leading to widening the gap between these Elite and the rest of the community.
4. Low market prices of companies' shares on financial exchanges and heavy financial losses that have harmed the interests of shareholders and other stakeholders.

h) *Effects of administrative corruption*

Corruption in general has a range of negative effects, including: (Bawadi, 2008).

- Poverty, the decline of social justice, the phenomenon of social and economic inequality and the low standard of living of many classes in society as a result of the concentration of wealth and power in the hands of the minority group, which has the money and power at the expense of the majority group, the general population.
- Loss of state funds that can be used to establish projects that serve citizens because of theft or squandering on personal interests, and the negative effects of corruption appear clearly on the marginalized, because of this widespread corruption occurs the loss of confidence in the social political system, and thus the loss of a sense of citizenship and belonging based on a contractual relationship between the individual and the state, as well as the migration of minds and competencies, which lose hope of obtaining a position suited to its capabilities This has an impact on the economy and development of society in general. As for the effects of administrative corruption, there are many opinions of the writers of management science and its theorists on the effects of this, some of them shows that administrative corruption only negative effects such as (Carino), the other section shows that administrative corruption has negative and positive effects such as (Osterfeld) As for the researcher is a supporter of opinion The first is that corruption has costly consequences on various aspects of political, economic and social life. The most important of these results can be summarized as follows:

1. The impact of corruption on social aspects: Corruption leads to the disruption of moral values and to frustration and the spread of indifference and negativity among members of society, and the emergence of intolerance and extremism in opinion and the spread of crime as a reaction to the collapse of values and inequality of opportunities. Corruption also leads to lack of professionalism and loss of work value and psychological acceptance of the idea Abandonment of the standards of performance of the duty and control and the decline of interest in the public right. The feeling of injustice among the majority leads to social congestion, the spread of hatred among the segments of society, the spread of poverty and the increase in the size of marginalized and affected groups, especially women, children and youth.
2. The impact of corruption on economic development: Corruption leads to many negative

consequences on economic development, including:

- Failure to attract foreign investment and the outflow of domestic capital.
- Waste of resources because of the overlap of personal interests in public development projects, and the significant material cost of corruption on the public treasury as a result of waste of public revenues.
- Failure to obtain foreign aid, as a result of the notoriety of the political regime, migration of economic competencies due to lack of appreciation and the emergence of favoritism in the occupation of positions.
- The impact of corruption on the political regime: Corruption has a negative impact on the entire political regime in terms of legitimacy, stability or reputation, as follows:
 - Affects the extent to which the regime enjoys democracy and its ability to respect the basic rights of citizens, especially the right to equality and equal opportunities, and limits the transparency and openness of the regime.
 - Leads to a situation where decisions are made even fateful ones according to personal interests and without taking into account the public interests.
 - Leads to major conflicts if interests conflict between different groups.
 - It creates an atmosphere of political hypocrisy as a result of buying political allegiances.
 - Leads to weak public and civil society institutions and enhances the role of traditional institutions.
 - It damages the reputation of the political regime and its external relations, especially with the countries that can provide material support to it, and in such a way that these countries set conditions that may affect the sovereignty of the state to grant aid.
 - Weak political participation due to lack of confidence in public institutions and oversight and accountability agencies.

VI. PREVIOUS STUDIES

A study (Abdul Ghani, 2012) entitled "*The effectiveness of governance and its role in reducing financial and administrative corruption*" The study aimed to identify the role and effectiveness of corporate governance in reducing financial and administrative corruption, that corporate governance is an important issue for all local and international companies in our time, given that the financial crises caused by the global economy put the concept of corporate governance among the priorities, and that the regime and governance laws Focuses on reducing the use of administrative authority in non-shareholders' interests, strengthening internal control and following up on the implementation of strategies. Interests as well as

confirmation of transparency and disclosure, the concept of corporate governance reform approach and a new mechanism of action that will consolidate the financial transactions integrity serve the development of the determinants of rights and interests of shareholders. A study (Karama, 2012) entitled "*Mechanisms of corporate governance and its role in reducing financial and administrative corruption*" The study aimed to identifying corporate governance, as following the principles of corporate governance leads to create of the necessary precautions against mismanagement and corruption, while encouraging transparency in economic life. Achieving sustainable management through achieving both social and environmental profitability with equal and balanced participation between the state, its government and its institutions, and civil society, under the supervision of integrity and transparency. Multiple visions take into account the ethical, social and environmental values to reach a sustainable institution. A study (Shawawara, 2009) entitled "*Governance rules and evaluation of their role in combating and preventing corruption in Jordanian public shareholding companies*" The study aimed to identify the concept of corporate governance, principles, rules, objectives and means, and evaluate its role in reducing the size of the conflict in the authorities and reducing the level of conflict of objectives between the various categories related to public shareholding companies, which would lead to the fight against corruption and prevention and maximize mutual interests between Arithmetic averages, standard deviations, confusion coefficient and variance analysis have been used to conclude that adherence to the application of corporate governance rules is an economic and social necessity and not an intellectual or administrative luxury. A commitment to the Jordanian public shareholding companies to combat corruption and cronyism. Drossy study (2012) entitled "*The effectiveness and performance of internal audit under corporate governance as a mechanism to reduce financial and administrative corruption*". The study aimed to identify the effectiveness and performance of internal audit under corporate governance as a mechanism to reduce financial and administrative corruption. Its involvement in the collapse of Enron and the other factors that have all contributed to the emergence of a new concept of corporate governance, which is the appropriate case to address the causes of the collapse, and the crisis of confidence that affected most of the transactions in global markets, which was one of the most important causes The key is the shading and the weakness of the internal audit level, which led to the loss of confidence in the departments and corporate boards and regulatory and accounting systems used in those companies. Manaseer study (2013) entitled "*The impact of the application of corporate governance rules on the performance of Jordanian public shareholding services companies*" The study aimed to know the impact of

applying corporate governance rules on the performance of Jordanian public shareholding companies, as well as to determine the extent of applying corporate governance rules by comparing the disclosures of service companies in the annual reports with the disclosure requirements issued by the Jordan Securities Commission. Adopting a questionnaire to disclose the extent of the application of corporate governance guidelines issued by the JSC as an indicator to measure the application of corporate governance rules, which contains four sets of rules, the study concluded that the set of governance rules related to disclosure and transparency ranked first in terms of application among the groups of governance rules of Jordanian service companies, followed by a set of governance rules related to shareholders' rights, then a set of governance rules related to the board of directors ranked third, while the set of rules relating to the meetings of the General Assembly ranked last. The study indicated that 85% of the Jordanian public shareholding companies apply the rules of corporate governance as a whole to any of the performance indicators of the Jordanian public shareholding services companies such as Return on Assets (ROA), Return on Equity (ROE), and Earnings per Share (EPS). However, the ratio of market value to book (M / B) and market value to earnings (P / E) however the set of governance rules related to shareholders' equity contributes and is related to the Return on Assets (ROM) and Earnings Per Share (EPS) variables. *A study (Shawwa, 2007) entitled: the institution governance and performance of companies in Jordan* The study aimed to examine the relationship between the application of the principles of corporate governance and performance indicators in the Jordanian shareholding companies, the study concluded that the combination of positions of the board of directors chairman and the first position in the executive management has been positively correlated with the performance indicators of the Jordanian shareholding companies, based on the previous result, the study recommended that Some of the standards of applicable governance principles are adjusted accordingly to the considerations of cultural, legal and institutional standards that may characterize a society for others. *A study (Joshua, 2009) entitled: Provide a proposed framework for corporate governance reform.* The study aimed to provide a proposed framework for reforming corporate governance, this study is considered one of the field studies, and it relied on the questionnaire to gather information. The results of this study confirmed many points, the most important of which are as follows: The inherent conflict of interest between the clients is a major problem under the governance Companies, the proposal of reforming corporate governance is to insure the work against misinformation, enabling the investor to obtain the amount of insurance, as a result of making wrong

decisions because of misinformation, companies in different industries insured on their lists, through an insurance contract with an insurance company, in return for payment to the insurance company (premium), and ensures that the investor who makes the wrong investment decisions, based on misleading things to the amount of compensation, the protection and bonus limits must be announced to the investor, the insurance company examines the bonus and indicates that the quality of that company is low. The lower the premium paid to the insurance company, the higher the quality.

VII. RESULTS

The search results showed the following:

1. The interest of phenomenon of financial and administrative corruption in the present era is increasing due to the increasing phenomenon in most countries.
2. The prevalence of corruption represented in the deterioration of the political, institutional, legal and administrative side was a limiting factor in the political and financial reform.
3. Corruption leads to an increase in the deficit of the state budget, that corruption costs countries billions of dollars annually.
4. Corruption destroys society economically, leading to widespread poverty and ignorance.

VIII. RECOMMENDATIONS

1. The need to focus on studies that have talked about corruption and to be the most likely opportunity for research centers to address such issues.
2. Implement corporate governance in government companies to reduce financial and administrative corruption.
3. The need to hold accountable all those who practice manifestations of corruption, whatever their position in society.

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