


THEORETICAL OVERVIEW OF MODERN CORPORATE GOVERNANCE: BEST PRACTICES AND CONTEMPORARY CHALLENGES

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ARTICLE INFO	ABSTRACT
<p>Article history: Received: Feb, 21st 2025 Accepted: Apr, 23th 2025</p>	<p>Objective: This study aims to present a full theoretical overview of modern corporate governance, its best practices, and its contemporary challenges.</p>
<p>Keywords: Modern; Corporate; Governance; Practices; Challenges.</p> 	<p>Theoretical Framework: Corporate governance is an absolute necessity today, especially in the era of digitization and artificial intelligence applications. Governance means an integrated control system that ensures the achievement of strategic goals and the protection of shareholders' and stakeholders' rights.</p> <p>Method: The methodology adopted for this research comprises the deductive and inductive approaches. Based on previous studies, it aims to derive the most important concepts related to modern corporate governance, its best practices, and challenges.</p> <p>Results and Discussion: Among the most important results reached by this study is that modern corporate governance can be practiced through a set of pillars, the most important are recruiting an effective board of directors, aligning the company's strategies with goals, and ensuring accountability, ethics and integrity. The study also concluded that modern corporate governance faces many contemporary challenges; the most important of its challenges are balancing interests and compliance with new international rules and regulations, the board composition and financial reporting fraud (Ethical challenge).</p> <p>Research Implications: This research's practical and theoretical implications can be applied to various types of companies, especially those with weak regulatory systems and a need to mainstream and implement modern governance.</p> <p>Originality/Value: This study contributes to the literature by providing the basic theory of modern corporate governance, which is considered one of the new concepts through which transparency is achieved, the assets of companies and their owners are protected, and the ethics of the profession are preserved from all forms of fraud and administrative or financial manipulation.</p> <p>Doi: https://doi.org/10.26668/businessreview/2025.v10i5.5510</p>

VISÃO GERAL TEÓRICA DA GOVERNANÇA CORPORATIVA MODERNA: MELHORES PRÁTICAS E DESAFIOS CONTEMPORÂNEOS

RESUMO

Objetivo: Este estudo tem como objetivo apresentar uma visão geral teórica completa da governança corporativa moderna, suas melhores práticas e seus desafios contemporâneos.

Estrutura Teórica: A governança corporativa é uma necessidade absoluta hoje em dia, especialmente na era da digitalização e dos aplicativos de inteligência artificial. Governança significa um sistema de controle integrado que garante a realização de metas estratégicas e a proteção dos direitos dos acionistas e das partes interessadas.

Método: A metodologia adotada para esta pesquisa inclui as abordagens dedutiva e indutiva. Com base em estudos anteriores, ela visa a derivar os conceitos mais importantes relacionados à governança corporativa moderna, suas melhores práticas e desafios.

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Resultados e Discussão: Entre os resultados mais importantes alcançados por este estudo está o de que a governança corporativa moderna pode ser praticada por meio de um conjunto de pilares, sendo os mais importantes o recrutamento de um conselho de administração eficaz, o alinhamento das estratégias da empresa com as metas e a garantia de responsabilidade, ética e integridade. O estudo também concluiu que a governança corporativa moderna enfrenta muitos desafios contemporâneos; os mais importantes são o equilíbrio entre interesses e a conformidade com as novas regras e regulamentações internacionais, a composição do conselho e a fraude nos relatórios financeiros (desafio ético).

Implicações da Pesquisa: As implicações práticas e teóricas desta pesquisa podem ser aplicadas a vários tipos de empresas, especialmente àquelas com sistemas regulatórios fracos e com necessidade de integrar e implementar a governança moderna.

Originalidade/Valor: Este estudo contribui para a literatura ao fornecer a teoria básica da governança corporativa moderna, que é considerada um dos novos conceitos por meio dos quais a transparência é alcançada, os ativos das empresas e seus proprietários são protegidos e a ética da profissão é preservada de todas as formas de fraude e manipulação administrativa ou financeira.

Palavras-chave: Moderno, Corporativo, Governança, Práticas, Desafios.

PANORAMA TEÓRICO DEL GOBIERNO CORPORATIVO MODERNO: MEJORES PRÁCTICAS Y DESAFÍOS CONTEMPORÁNEOS

RESUMEN

Objetivo: Este estudio pretende presentar una panorámica teórica completa del gobierno corporativo moderno, sus mejores prácticas y sus retos contemporáneos.

Marco Teórico: El gobierno corporativo es una necesidad absoluta hoy en día, especialmente en la era de la digitalización y las aplicaciones de inteligencia artificial. La gobernanza es un sistema de control integrado que garantiza la realización de los objetivos estratégicos y la protección de los derechos de los accionistas y las partes interesadas.

Método: La metodología adoptada para esta investigación incluye enfoques deductivos e inductivos. Basándose en estudios anteriores, pretende deducir los conceptos más importantes relacionados con el gobierno corporativo moderno, sus mejores prácticas y sus retos.

Resultados y Discusión: Entre los resultados más importantes alcanzados por este estudio se encuentra que el gobierno corporativo moderno puede practicarse a través de un conjunto de pilares, los más importantes de los cuales son la contratación de un consejo de administración eficaz, la alineación de las estrategias de la empresa con los objetivos y la garantía de la responsabilidad, la ética y la integridad. El estudio también concluye que el gobierno corporativo moderno se enfrenta a muchos retos contemporáneos; los más importantes son el equilibrio de intereses y el cumplimiento de las nuevas normas y reglamentos internacionales, la composición del consejo y el fraude en la información financiera (reto ético).

Implicaciones de la Investigación: Las implicaciones prácticas y teóricas de esta investigación pueden aplicarse a diversos tipos de empresas, especialmente a aquellas con sistemas normativos débiles y que necesitan integrar e implantar una gobernanza moderna.

Originalidad/Valor: Este estudio contribuye a la bibliografía al proporcionar la teoría básica del gobierno corporativo moderno, que se considera uno de los nuevos conceptos mediante los cuales se logra la transparencia, se protege el patrimonio de las empresas y de sus propietarios y se preserva la ética de la profesión de toda forma de fraude y manipulación administrativa o financiera.

Palabras clave: Moderno, Gobierno, Corporativo, Prácticas, Desafíos.

1 INTRODUCTION

The control function considered one of the most important management functions; it linked to the various departments of the company. In its comprehensive concept, control helps to achieve the company's goals by comparing its actual performance with its planned

performance. The term Corporate Governance emerged in the modern era after a series of financial collapses that hit many companies in various countries of the world. These collapses and financial scandals proved that it is necessary to search for integrated control systems to control performance, as internal control systems alone are no longer sufficient, especially with the spread of bias, fraud, and financial and administrative corruption, which necessitated the application of modern corporate governance systems. The term corporate governance is a term derived from control, i.e. control over the company's performance in order to solve the problem of conflict of interest between the company's owners and the board of directors.

Some financial and administrative scandals have proven management's intention to maximize its profits and rewards at the expense of shareholders' profits and interests. Some auditing companies' collusion with boards of directors may also lead to the looting of the company's assets and the squandering of funds. The modern governance system is based on a set of principles, pillars, and mechanisms that work to monitor the company and protect shareholders' and stockholders' rights. In light of these foundations, this study aims to read and analyze theoretically modern corporate governance, its practices, and the challenges facing its application in the modern era. The deductive and analytical approach relied upon in analyzing and interpreting this study. The study is limited to modern corporate governance, and the main study problem formulated as follows:

What are the best practices of modern corporate governance and its contemporary challenges?

To achieve the study objectives, we divided it into two main axes:

- The first axis, entitled "Conceptual framework of modern corporate governance," includes the modern corporate governance definitions and parties, the emergence of modern corporate governance, its role & functions,
- The second axis, entitled "Best practices and contemporary challenges in modern corporate governance" includes the best practices of modern corporate governance and its contemporary challenges.

In the conclusion, we tried to present a set of results related to the good practices of modern corporate governance and some suggestions for facing its contemporary challenges.

2 CONCEPTUAL FRAMEWORK OF MODERN CORPORATE GOVERNANCE

The theme of corporate governance as an ideology cannot be approached without mentioning and discussing the context of its appearance (Pesqueux, 2000, p. 03), Corporate governance has become one of the most commonly used phrases in the current global business vocabulary.

2.1 MODERN CORPORATE GOVERNANCE DEFINITIONS

Financial collapses, particularly, the American company Enron in 2001, have focused international attention on the causes of corporate failure and the role that good corporate governance should play in preventing financial scandals (Solomon, 2007, p. 11), Corporate governance is an English term that began to be used at the beginning of the last century nineties and has increased widely in recent years by many experts, especially those working in international and regional organizations.

The emergence of corporate governance increased due to "Agency Theory" because of the conflict of interests between the board of director's members and owners, and the necessity of having a set of laws and regulations that protect the interests of shareholders and limit the financial manipulation that may be carried out by the board of directors and executive management, with the aim of maximizing their own interests at the expense of shareholders' interests. (Haouam & Feddaoui, 2012, pp. 7-8). According to Pigé, governance means all mechanisms that contribute to aligning its work reality with its set goals (Pige, 2010, p. 09).

Nowadays, there has been a growth in the corporate governance literature, for example, Solomon defined this concept as a system of internal or external corporate controls that ensures that companies fulfill their responsibilities to all stakeholders and act in a socially responsible manner in all areas of their business activity (O.Idowu & Kiymet Tunca, 2014, p. 05)

If we look at the literary reading of the concept of governance, we find many definitions. According to Cadbury, corporate governance is the system by which companies are directed and controlled; Demb & Neubauer also defined corporate governance as the process by which corporations are made responsive to the rights and wishes of stakeholders. By contrast, Shleifer & Vishny found that this concept deals with ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. According to Martin Hilb we can differentiate between "New Corporate Governance" and "traditional corporate governance" on the basis of four dimensions, as follows:

Table 1

Differences between “New Corporate Governance” and “Traditional corporate governance”.

Dimension	Traditional corporate governance	New corporate governance
Situational Implementation	No difference between national, industry and corporate culture	Implementation appropriate to the specific context of each firm (Keep it situational)
Strategic Direction	Strategic development is not a function of the supervisory board	Strategic development is a central function of the supervisory board (Keep it strategic)
Integrated Board Management	Only isolated nomination and remuneration committees in publicly listed companies	Integrated and targeted selection, appraisal, compensation and development of the supervisory and managing boards (Keep it integrated)
Holistic Monitoring	Controlling the financial dimension only	Holistic monitoring of results from the perspectives of shareholders, clients, employees and the public (Keep it controlled)

Source: Martin Hilb, *New Corporate governance, successful board management tools*, Springer Berlin, Germany, 2005, p10.

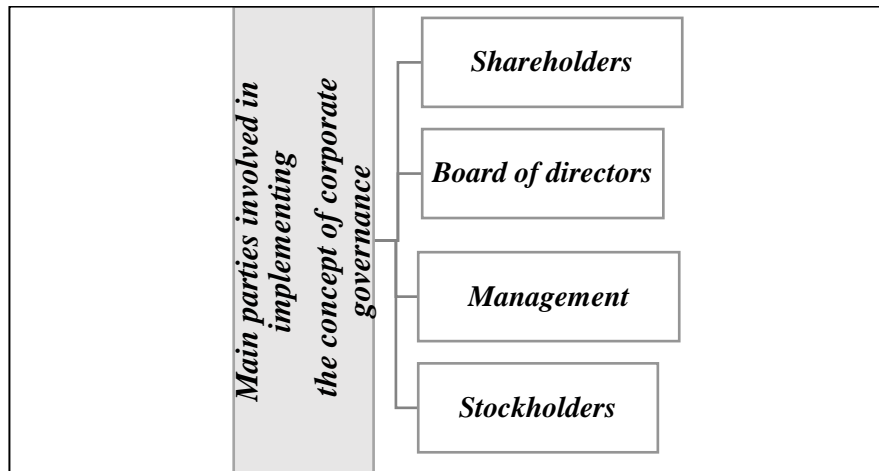
A further cornerstone of Martin Hilb's definition of corporate governance is an entrepreneurial and ethical orientation. (Hilb, 2005, pp. 09-10) Looking to the point of view of Charreaux in his book entitled "Corporate Governance, Theories And Facts, 1997", Corporate governance covers all organizational mechanisms that have the effect of delimiting the powers and influencing the decisions of managers, governing their conduct and defining their discretionary space (Charreaux, 1997, p. 01).

2.2 MODERN CORPORATE GOVERNANCE PARTIES

From the previous definitions, it is worth noting that there are four main parties concerned with the implementation of corporate governance, which explained through the following figure:

Figure 1

Main parties involved in implementing the concept of corporate governance.



Source: Muhamad Mustapha Sulaiman, The role of corporate governance in addressing financial and administrative corruption, Al Dar Al Jamiyya, Alexandria, Egypt, 2009, p20.

From the figure above, we note that shareholders are the owners who provide capital to the company through their shares in exchange for profits, while the board of directors represents the party that undertakes the task and authority of daily management of the company's business and how to preserve shareholders' rights. As for executive management, it is responsible for the management of the company and submitting performance reports. Stockholders represent the group of parties who have interests within the company, such as creditors, suppliers, workers and employees. So the concept of governance is affected by the relationship between these main parties (Sulaiman, 2009, pp. 20-21).

2.3 MODERN CORPORATE GOVERNANCE EMERGENCE

The main drivers for corporate governance emergence listed as follows:

2.3.1 The agency theory

The separation of ownership and management considered one of the most important factors that led to the emergence of agency theory. Berle and Means were the first who address this topic in 1932 in a symposium entitled "Modern Companies and Private Ownership". This symposium indicated that the company has become huge, and this will lead to the separation between ownership and control, which may result in what known as the agency problem. The

latter means the danger resulting from managers using strategies that completely conflict with the interests of the owners and serve their own purposes.

2.3.2 The financial collapses

At the beginning of the nineties and the transformation to capitalist companies, the concept of corporate governance developed regarding many scandals and financial collapses in giant companies, such as the United States of America, the energy company "Enron", and the communications company "WorldCom" and others, were a wake-up call for the need to develop corporate governance practices.

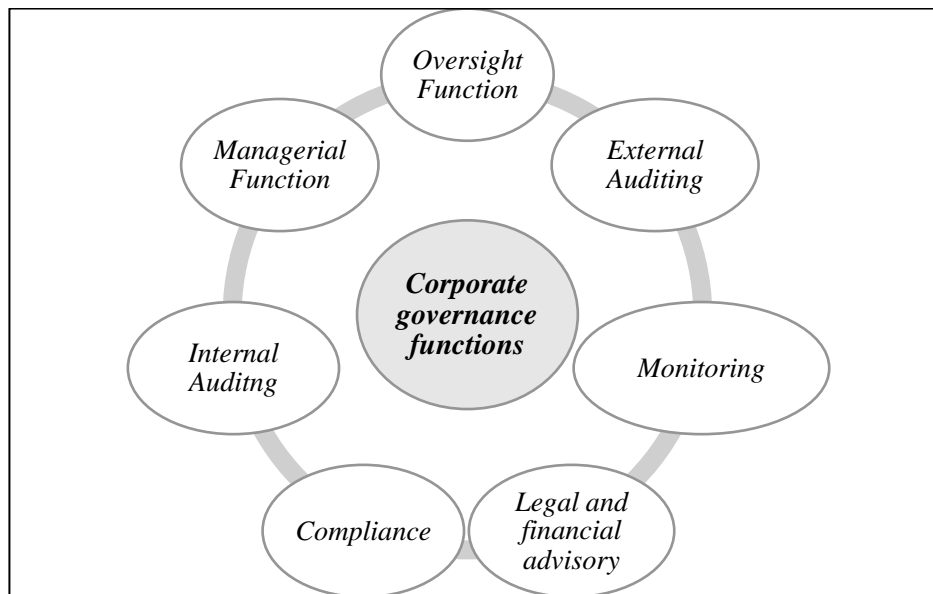
In 1992, the United Kingdom issued the first set of corporate governance principles in the famous report named "Cadbury report", followed by South Africa by the first "King, 1King" report in 1994, then the second report "King, 2King" in 2002, the French and German principles, and finally the "Combined Code" in the United Kingdom. In 1999, the Organization for Economic Co-operation and Development (OECD) published the first set of international principles for corporate governance, and then revised them in 2004. They were the basis for corporate governance initiatives in all OECD countries, by presenting a number of guiding plans to support management, the efficiency of financial markets and the stability of the economy as a whole (Haouam & Feddaoui , 2012, pp. 7-8).

3 MODERN CORPORATE GOVERNANCE ROLE & FUNCTIONS

Corporate governance plays an important role in improving market efficiency through its impact on effectiveness and profit growth, as well as ensuring the quality of financial reports. Thus, corporate governance has five roles (Zabihollah & Richard, 2010, pp. 122-124):

- It ensures efficient and effective use of company's resources,
- It ensures compliance with laws and financial regulations,
- It implements continuous improvements in performance,
- It ensures accountability,
- It creates trust and confidence.

The most important functions of corporate governance shown in the following figure:

Figure 2*Corporate Governance Functions.*

Source: Zabihollah Rezaee, Richard Riley, Financial statement fraud, prevention and detection, John Wiley and Sons, Inc, United States of America, 2010, pp130-131.

Through the figure above, the functions of corporate governance will be explained as follows (Zabihollah & Richard, 2010, pp. 129-131):

- Granting the oversight function to the Board of Directors with the fiduciary duty to oversee the interests of the company and the rights of its shareholders,
- Granting the Board of Directors the authority to manage the company's resources and its operations,
- The external auditor, as one of the governance mechanisms, expresses his opinion on the truthfulness and fairness of the financial statements presentation,
- The internal auditing function provides both assurance and consulting services to the company in the areas of operational efficiency, risk management, financial reporting and the internal control system,
- The compliance function includes the need to respect and implement laws, regulations, rules, standards and apply the best practices established by legislators, regulatory bodies, standard-setting bodies and international professional organizations,
- The legal and financial consulting function provides legal advice and helps the company, its directors, officers and employees to comply with applicable laws, regulations and rules and other legal obligations and fiduciary duties,

- Exercising the monitoring function by shareholders and capital owners who have the authority to elect and remove directors if necessary.

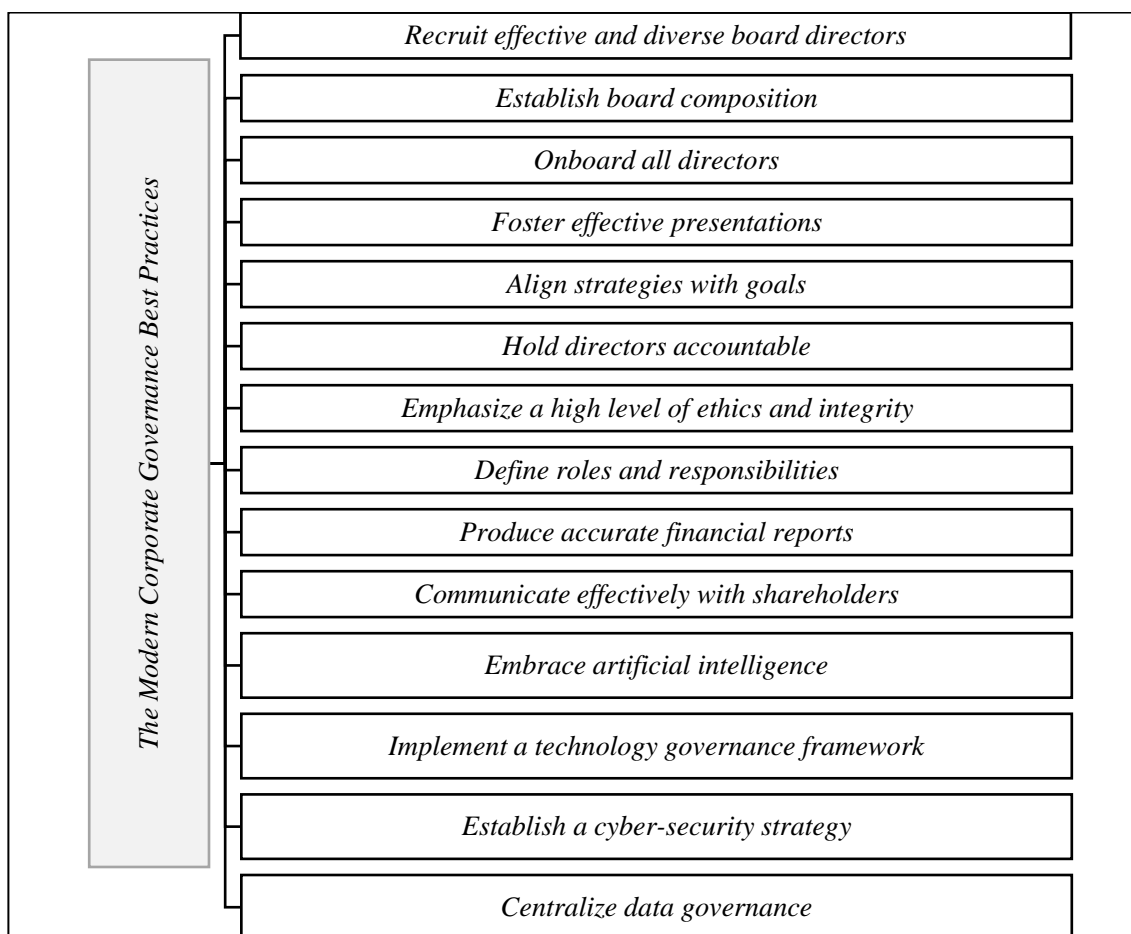
4 BEST PRACTICES AND CONTEMPORARY CHALLENGES IN MODERN CORPORATE GOVERNANCE

Applying modern corporate governance practices can ensure the achievement of the company's strategic objectives and protect the rights of owners and stockholders. However, its application faces many risks and challenges. Through this Axis, we will explain the most important good practices of modern corporate governance and its challenges.

The following figure presents the Modern corporate governance best practices (Farnham, 2025):

Figure 3

Modern corporate governance best practices.

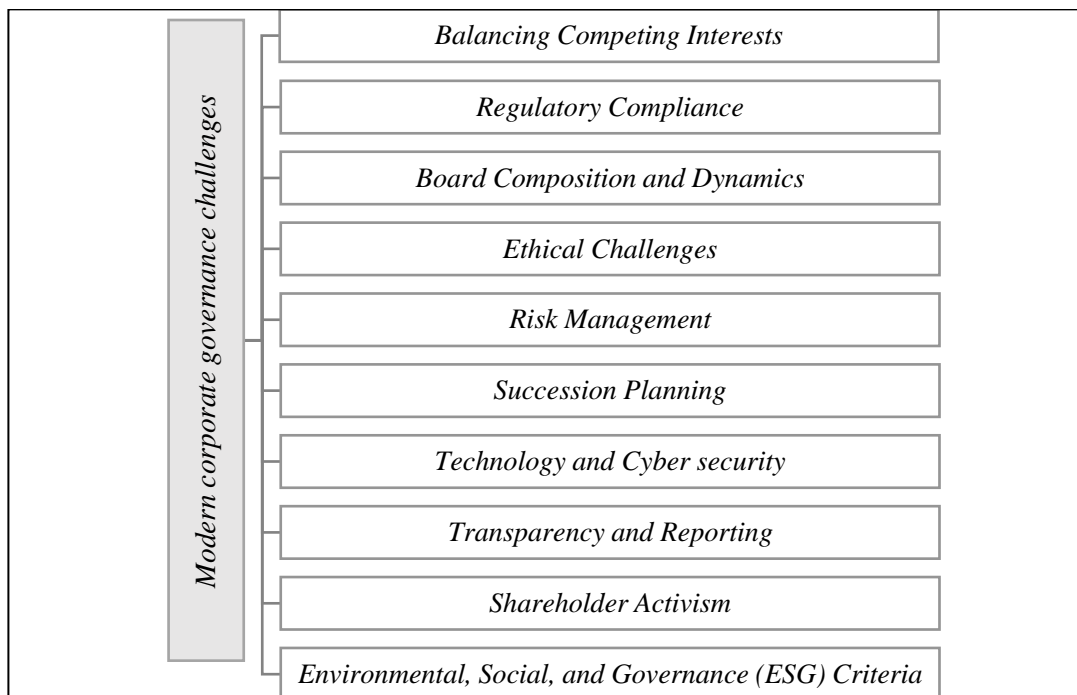


Source: Kezia Farnham, 14 effective corporate governance best practices to implement now, January 2, 2025, website: <https://www.diligent.com/resources/blog/best-practices-for-corporate-governance>, viewed date: 07-02-2025.

Maintaining effective corporate governance presents numerous challenges. In the following figure, we present the ten significant Modern corporate governance challenges that companies face today:

Figure 4

Modern corporate governance best practices.



Source: Team Digital Defynd, 10 Corporate Governance Challenges, website: <https://digitaldefynd.com/IQ/corporate-governance-challenges/>, viewed date: 09-02-2025.

5 CONCLUSION

Corporate governance today is an absolute necessity, especially in the era of digitization and artificial intelligence applications. Governance means integrated and comprehensive oversight of the organization, so that governance ensures through its proper application the achievement of the strategic goals of the institution and the protection of the rights of shareholders and stakeholders. Through this study, a set of results and suggestions can be reached. Among the most important results reached by this study is that modern corporate governance can be practiced through a set of pillars, which are:

- Recruiting an effective and diverse board of directors and establishing its composition,
- Onboarding all directors and fostering effective presentations,
- Aligning the company's strategies with goals,

- Ensuring accountability, ethics and integrity,
- Defining roles and responsibilities, and the separation between functions of the board Chairman and CEO,
- Producing accurate financial reports and Communicating effectively with shareholders,
- Embracing artificial intelligence, implementing a technology governance framework, and establishing a cyber-security strategy,
- Centralizing data governance.

The study also concluded that modern corporate governance faces many Contemporary challenges, the most important of its challenges are:

- Balancing Competing Interests and the challenge of Compliance with new international rules and regulations,
- The board Composition and financial reporting fraud (Ethical challenge),
- Ensuring an efficient risk management process and succession planning in the company,
- The challenge of AI and cyber security systems to secure the company's data,
- Transparency and reporting and shareholder activism,
- The challenges of environmental, social, and governance (ESG) Criteria.

Among the most important recommendations presented by this study is the need to adhere to modern corporate governance best practices. As well, as enhance transparency and accountability to avoid conflicts of interest, protect the rights of shareholders and stakeholders in the company, especially in the era of digitization and the risks of artificial intelligence. In addition, the need to enhance cyber security procedures and the need to adapt to global legal and environmental developments.

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