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CORPORATE GOVERNANCE MODEL: A PRACTICAL INFERENCE APPROACH

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Abstract

Most reputable businesses rely on corporate ownership and good governance practices. Following corporate governance guidelines helps companies that support them gain a larger market share and encourages strategic company growth. Good governance relies upon the practical implication of standards and methods to control corporate fraud and corruption. Treating corporate businesses with an innovative approach is necessary to overcome bribery and its intensive control. This study highlights the family's business issues and the fraudulent practices followed for many years. The empirical analysis provides extensive support for implementing good governance practices in corporate culture and the strong implementation of audit engagement. Furthermore, this study confers with the exploratory research in relationship with the governance practices and audit control, which expanded towards the governance model. The empirical description provided by this study shows how audit engagement and independent professionalism can lead to actual productivity. In addition, secretarial audits and aerial views of the corporate sector's performance by authorities and regulatory bodies are critical in the fight against corruption.

Keywords: Audit Engagement, Corporate Governance, Family Businesses

Introduction

Corporate ownership and good governance practices play a significant role in maintaining credible business in the market. Effective practice of governance standards leads toward strategic business development and enhances the market share of concerned organizations that maintain corporate governance standards. Another perspective of firm ownership deals with the profitability enjoyed by the stakeholders. It deals with the incentives offered to the stakeholders through bonus shares and high dividend payout ratios. The firm ownership structure is based on the division of capital investment and management participation, which is normally used in the ownership rights of the organization (Barbosa and Louri, 2002). In recent practices, several organizations have paid worthy attention to implementing good governance practices to maintain their stakeholders. In this sense, the disbursement of the shareholders' equity is managed by the hired managers and experts who comply with shareholders' issues and protect their ownership rights (Zaman et al., 2022).

Rationale

The rationale for this study stems from the recognition that organizational productivity is deeply intertwined with elements such as good governance and

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professional audit engagements. Understanding the dynamics between these factors can provide valuable insights into fostering genuine productivity within organizations.

Problem Statement

One of the challenges facing modern organizations is optimizing productivity in a complex and dynamic business environment (Perez-Gonzalez, 2001). This research aims to close the knowledge gaps regarding the relationship between an organization's productivity, good governance, and professional audit engagements.

Research Question

What relationship exists between the actual productivity of an organization, good governance, and professional audit engagements?

Research Objective

The primary objective of this study is to examine and assess the relationship between an organization's true productivity, professional audit engagements, and good governance. The study aims to provide useful insights to help businesses increase productivity through empirical research.

Research Hypotheses

H_1: Good governance plays a significant role in the genuine productivity of the organization.

H_2: Audit engagement and professionalism urge genuine productivity of the organization.

Significance of Research

The significance of this research lies in its potential to yield valuable insights and implications for various stakeholders. This study aims to contribute to the existing body of knowledge by delving into the specified research question. The findings may help scholars, business experts, and legislators better understand the dynamics at play so they can make wise decisions.

Moreover, the research has practical implications for organizations seeking to enhance their operations. As explored in this study, identifying factors influencing productivity can serve as a guide for implementing effective strategies and policies. Ultimately, the significance of this research extends beyond academic inquiry, offering real-world applications that can positively impact organizational practices and, by extension, contribute to broader societal and economic advancements.

Literature review

Corporate firms have a diverse ownership structure and cannot engage all of them via appropriate communication tools. Most of the time, shareholders failed to access the secret information. From a theoretical perspective, firm performance and ownership structure are examined through empirical analysis.

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Family businesses culture

In Pakistan's developing economy, family-owned businesses play a vital role in developing the economy and largely contribute to declaring dividends to ordinary shareholders. The shareholders have the dominant authority to make effective decisions for the betterment of the organizational business. The basal drawback of family-owned shareholders is that they have the maximum right to company value and business. Minority shareholders fail to protect their rights own rights. Meanwhile, corporate governance practices work as a catalyst to protect the rights of shareholders and provide extensive for the nation's development. A problem exists between the shareholder's rights and the company's code of conduct with their investors. The controlled structure of firm ownership is very complex, and many investors fail to find out the ownership pyramid of an organization. Relatively, risk factors are involved in it from the perspective of the minority shareholders. Several issues were raised from this complex ownership structure in the shape of wrong proxies, including the practice of the dual voting act by the majority shareholders.

In most cases, board members are directly involved in it via creating the lock and boundaries towards protecting the actual rights of shareholders (Gane, 2023). The top position in the organization, the Chief Executive Officer (CEO), is responsible for taking necessary steps to enhance the organization's business. The shareholders can check the company's financial statement and force its top executives to maximize their share value (Peres-Gonzalez, 2001).

Audit practices and control

The concept of internal audit evolved over many years and played a significant role in maintaining the organization's transparency system. In the present scenario, an internal audit is integral for maintaining good governance in the organization (Selim et al., 2000). As corporate governance is introduced in the emerging business market, the importance of internal auditors is in high demand. With time, the internal auditor becomes necessary in the listed organizations. The concept of the internal auditor is appreciable for the organization's top management to control the operation under transparency and tight control (Mia 2009). The internal auditor's strong control over the organization's operations gives an edge to increase the organization's performance in an efficient manner (Sadler et al.2008). The significant value of the audit committee can be summarized in the word "lapse watchdog," which is related to the financial reports every quarter, looks after the operational control, and mitigates the risk on a priority basis (Marx 2009). The strategic role performed by the internal auditor provides the ultimate support to the management and improves the work quality in the organization (Marx 2008).

Moreover, the audit committee relies on the work performance of the internal auditor. The job description of the internal auditor is based on the inspection of the company's operation and maintains an accurate record of all business transactions. Internal auditors work on an independent basis and add value to manage the operations of the organization. The internal auditor's work performance helps accomplish the organizational goals efficiently. It also supports improving organizational control and establishing governance (Sawyer et al.2004). Generally, internal auditors prefer to identify and evaluate the risk factors in business and contribute their thoughts to

improve the risk management and control of the operations (IIA 2005). Generally, the decision made by the internal auditor provides ultimate support to control the fraud in the organization. Meanwhile, the fraud risk directly involves compensating the managers and subordinates (Asare et al. 2008). The normal practice considered by the internal audit does not meet professional standards.

In contrast, the work done by an auditor is related to risk assessment, planning and decision support (Beaulieu 2001). Similarly, the study conducted by Kizirian et al. (2005) highlights the evidence based on the audit normally perceived at a low scale and omissions are controlled from the bottom line in the organization. Elder and Allen (2003) mention that the inherent risk and the extension of the testing with little evidence largely support controlling the risk factor in the organization. Bedard and Johnstone" 's (2004) results show a positive relationship between risk management and audit practices, while on the other hand, the relationship of corporate governance with audit practices does not exist. The findings of Johnstone and Bedard (2001) provide the estimations between the audit practices inside the organization and control the fraud in the organization. Blay et al. (2007) findings clarify that the risk factor associated with fraud directly influences the audit evidence obtained from the organization.

In comparison, Mock and Turner (2005) clarify that the factor associated with fraud risk increases the efforts of internal auditors. The study conducted by Yeboah et al. (2023) highlights that risk management and assessment are not directly related to extending the internal auditors' activities. In the previous studies, no one examined the effort made by the auditors conveyed by officers, the board of directors and the audit committee. In this sense, in the study conducted by Cohen et al. (2007), the efforts made by the internal auditors play a strong role when the company's directors have an insignificant role in the organization's business development.

Efficient audit practices

The credible theory by Messieret et al. (2001) is that audit competencies are based on the source of the information obtained from the organization's operational staff. Biased information may lead to the failure of the business and create a turbulent situation for the organization. Trompeter and Wright (2006) identify that the information extracted from an underutilized source is normally perceived as unreliable. Anderson (2003) states: "Operating managers are focused on meeting their operating objectives. For them, the audits add value by identifying opportunities for improving their operations by either increasing effectiveness or, more commonly, identifying potential cost savings and making operations more efficient.

Governance Practices and Audit

It is possible to implement corporate governance in the same version successfully. The ratio analysis was created, and management consultants claimed it was the best way to enhance a company's reputation. Corporate governance and management audits offer qualitative "X-rays" of the business. But as the world gets smaller and more connected daily, the business environment gets more complex, and various factors affect an organization differently. This theory questions whether a federation audit is merely a valid performance evaluation.

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Further audits are needed to give an actual picture of the company. The collapse of organizations like Enron, WorldCom, etc, enhances the need for further detailed investigation. Organizational decisions are largely based on the reports that the auditors prepare. Such valid information becomes the organization's main source and helps maintain the standards reports (Luo, 2020). The management bodies take necessary actions to do business professionally. Different research practices are considered for taking the business in the market, which helps gain awesome business growth.

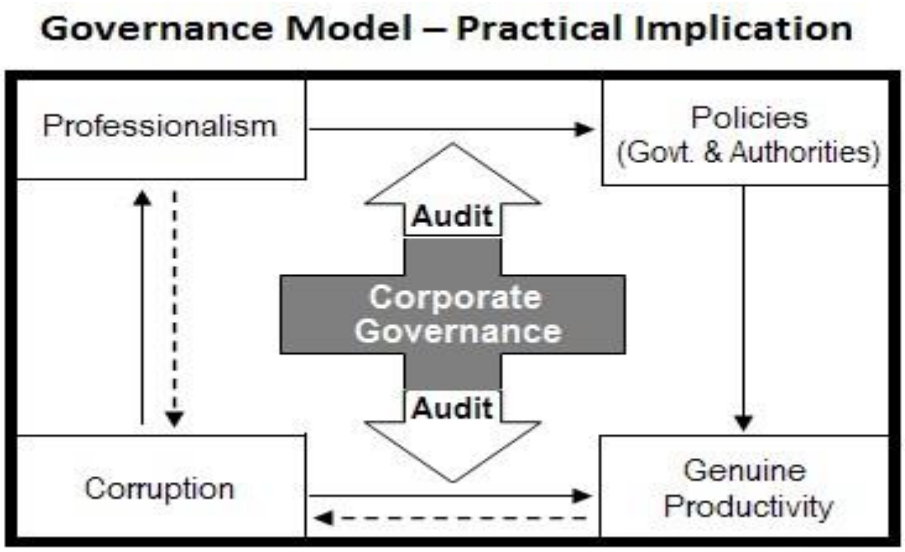
Methodology

The investigation of the research problem is analyzed with certain steps, including corporate governance implementation with the support of audit practices, which urges the organization's productivity level. This research study elaborates on the conceptual and analogical framework by empirically analyzing how good governance deals with the organization's financial matters. It also evolves the practical implication governance model by measuring the tools and techniques necessary to follow during a professional audit. This study was completed using data mining and an analytical process description, which gave the results and conclusions more weight. The probabilistic sampling technique helps formulate the concept. It offers insight into the operations of public limited firms and management staff and colleagues' simulation exercises using the researcher's survey and evaluating approach. The following options were available while surveying target sample 07 using the Likert scale approach: 1 indicates severe disagreement, two somewhat disagreements, three moderate disagreement, four neutrality, five slight agreement, six somewhat agreement, and seven strong agreements. An interactive approach is highly considered while conducting the expert's interview from the risk-bearing and managing team and formulating the expert opinion on set standards and market peril ratios. I also studied the work operations of audit committees and experts of risk management departments of well-known business organizations and studied the lectures of business executives at conferences.

Analysis and discussion

Good governance practices play a vital role in economic and industrial development. Professionalism becomes the priority when tackling turbulent situations in businesses. Sometimes, government policies and structures work as a catalyst to overcome fraudulent challenges, which hinder the economy's positive productivity. Corruption and wrong acts by independent bodies (professionals) disturb the industrial structure and lead to black money. Corruption may have a direct impact on genuine productivity and professionalism. The standards followed in corporate governance give the edge to resolve matters on a priority basis and control the misconduct of the corporate sectors via imposing the authorities with policies. Practically, professionals may pursue the sleaze act by adopting indirect ways and methods.

Figure 1: Governance Model



Ultimately, productivity is also affected negatively and sometimes shows an inverse relationship with corruption. In family-owned businesses, several owners silently violate the rules and regulations imposed by the regulations and authorities. Good governance practices place barriers before corruption, providing extensive support to corporations in a particular industry. It also urges businesses and expands the market with governance and ethical standards. Audit practices concerning international standards provide extensive support to control the professionalism towards engagement in corruption. Proper checks and balances of the output results/productivity and the secretarial audit lend a hand to corporate governance implications.

Hypotheses Testing and Analysis

H_1: Good governance plays a significant role in the genuine productivity of the organization.

Table 1: Descriptive Statistics

	Mean	Std. Deviation	N
Genuine productivity	5.6522	1.37828	92
Good governance	5.0109	1.54418	92

The descriptive statistics show the agreed results of the respondents: good governance practices urge the organization's productivity level.

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Table 2: Correlations

Pearson Correlation	Genuine Productivity	Good Governance
Genuine productivity	1.000	0.601
Good governance	0.601	1.000

Both variables show a positive correlation and clarify that genuine productivity can be generated based on good governance practices.

Table 3: Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	0.601[a]	0.361	0.354	1.107	0.361	50.818	1	90	0.000	1.413

a. Predictors: (Constant), Good governance
b. Dependent Variable: Genuine productivity

The regression value among the variables shows a positive relationship in this hypothetical framework. The regression value (0.601) and adjusted r square value (0.354) prove the moderate relationship between the variables, which means several other factors also influence the genuine productivity of the organization.

Table 4: ANOVA[b]

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	62.385	1	62.385	50.818	0.000a
Residual	110.485	90	1.228		
Total	172.870	91			

a. Predictors: (Constant), Good governance
b. Dependent Variable: Genuine productivity

$F_{observed}$ 50.818 > $F_{critical}$ 3.98

The F observed value is greater than the F critical value, so the null hypothesis is rejected.

H_2: Audit engagement and professionalism urge genuine productivity of the organization.

Table 5: Descriptive Statistics			
	Mean	Std. Deviation	N
Genuine productivity	5.652	1.378	92
Audit engagement	5.010	1.544	92
Professionalism	5.174	1.306	92

The response of the target sample shows their agreed behavior toward the organization's genuine productivity, professionalism, and audit engagement.

Table 6: Correlations			
Pearson Correlation	Genuine Productivity	Audit engagement	Professionalism
Genuine productivity	1.000	0.601	0.785
Audit engagement	0.601	1.000	0.533
Professionalism	0.785	0.533	1.000

A positive correlation exists between the variable of value (.533), which means that audit engagement is largely based on professionalism and independent directorship.

Table 7: Model Summary[b]										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	0.814[a]	0.662	0.655	0.809	0.662	87.339	2	89	0.000	1.832
a. Predictors: (Constant), Professionalism, Audit engagement b. Dependent Variable: Genuine productivity										

The regression values among the variables show a positive relationship in this hypothetical framework compared to the previous hypothesis results. The regression value (0.814) and adjusted r square value (0.655) prove the strong relationship among the variables.

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Table 8: ANOVA[b]

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	114.520	2	57.260	87.339	0.000a
Residual	58.349	89	0.656		
Total	172.870	91			

a. Predictors: (Constant), Professionalism, Audit engagement
b. Dependent Variable: Genuine productivity

$F_{observed}$ 87.339 > $F_{critical}$ 3.03

The F observed value is greater than the F critical value, so the null hypothesis is rejected.

Conclusion

The results and findings clarify that corruption directly hits professionalism. Ultimately, the outcomes are fake and not up to the mark as the regulatory bodies require. Corporate governance standards may control corruption if the standards are strictly followed. Meanwhile, implementing the governance model requires stringent audit practices and a secretarial audit, leading to the corporate bodies' ethical representation. Family businesses are directly involved in miscellaneous acts and the wrongful conduct of the financial statements. This economic disaster can be measured by the actual productivity and fake productivity mentioned in the corporate sector's annual reports. The empirical description of this study highlights that audit engagement and independent professionalism can lead to genuine productivity. At the same time, controlling corruption with secretariat audits and a bird ' s-eye view of the corporate sector performance by regulation bodies and authorities is necessary.

Recommendations

Based on the findings of this study, it is suggested that organizations consider implementing the following recommendations to improve their practices and outcomes:

- **Enhance Governance Practices:** Strengthening governance frameworks can improve decision-making and organizational effectiveness.
- **Invest in Professional Audit Services:** Organizations should prioritize engaging professional auditing services to ensure thorough and objective operations assessments, fostering transparency and accountability.
- **Continuous Training and Development:** Establishing ongoing training programs for employees, especially in areas related to governance and audit processes, can enhance the skills and competencies crucial for sustained productivity.

- **Regular Performance Monitoring:** Implementing regular performance monitoring mechanisms can help organizations promptly identify and address potential issues, contributing to long-term productivity.

Limitations of Research

It is important to acknowledge certain limitations that may impact the generalization and applicability of the study's findings:

- **Scope Constraints:** The research may be limited by its focus on specific industries, geographical regions, or organizational sizes, potentially limiting the generalizability of the findings.

- **Data Collection Challenges:** The accuracy and reliability of the findings may be influenced by challenges in data collection, such as the availability of historical records or the willingness of participants to provide accurate information.

- **External Factors:** External factors, such as economic changes or industry-specific dynamics, could impact the research outcomes and may not have been fully accounted for in the study.

- **Time Constraints:** The study's timeframe may restrict the depth of analysis, preventing a comprehensive understanding of long-term effects or trends.

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