Corporate Governance Practices Enhance The Firm Intellectual Capital Performance: A Conceptual Review

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Abstract
In the meantime, of global crises numerous scholars have studied that many corporate accounting scandals had happened in the past like Lehman Brothers 2008, Satyam 2009, Adani group 2023. Due to this, there is a need to examine good corporate governance practices. Corporate governance substantially effects firm financial performance and this relationship is set up via quantity of research performed in this field. Also, there are research which exhibits the relationship between corporate governance and intellectual capital performance. Although, intellectual capital positively affects firm financial performance as proven in the preceding studies. For measuring CG, variables like BOD, CEO Duality, Independent director, non-executive director, woman's director, director remuneration, audit committee chairman, number of audit committee meetings, audit committee members and measuring IC by VAIC, HCE, SCE, CEE. Our study hypothesized that corporate governance practices enhance the firm's intellectual capital performance. A single conceptual model of corporate governance and firm intellectual capital performance is proposed to study this relationship.

Keywords: Corporate governance, Intellectual capital, CG, IC, VAIC.

1. INTRODUCTION

Corporate policies are often pulled out in the public forum because of their unscrupulous tendencies and intentions. These have made it necessary to introduce broad reforms in the corporate ecosystem. Corporate governance is one such mechanism to rectify these. Corporate governance encompasses all those mechanisms which help in regulating and directing the companies. It is the body of processes, customs, policies, rules and regulations that affect the way a company is governed, managed or controlled. The corporate governance mechanism is a clear process and relationship between those who make decisions and those who control or monitor decisions(Anik et al., 2021).

While developed countries have passed several laws for an effective corporate governance ecosystem, developing countries are still struggling to take a big step in this direction. Corporate governance makes it virtually difficult to cheat or leave the financial entity for any stakeholder because of the terms and conditions attached to it. This will make the entity more sustainable, dynamic and robust when it comes to its longevity. Corporate governance delineates the relationship among various stakeholders of the company, it will prove to be a guiding light in corroborating the morals which a stakeholder undertakes. This will help in mending new terms of conditions and new reference points before starting or continuing any joint venture. These countries demand a holistic approach towards their studies because of their unique socioeconomic set up and traditional practices which stand out in the modern era. Corporate governance of financial enterprises differs from the non-financial enterprises due to its opacity and strict regulation (Levine, 2004).

Corporate Governors need to face stiff competition in global environment to remain relevant in present times. This challenge can be faced by utilizing its intellectual assets properly. Transition of economies must shift manufacturing decade to a knowledge-based economy where corporate governors can maximize the value of IC resources to remain competitive in current times (Makki and Lodhi 2014). The intangible assets are keys for developing and retaining competitive edge in the market (Ghosh and Mondal 2009). IC is the critical intangible asset that can transform the financial performance of a company. Intellectual capital has transformed significantly due to the upsurge of state-of-the-art techniques and inventions in technology. Intellectual Capital such as research and development expenditures, advertisement and human resources plays a predominant role for company valuation (Tsai *et al.,* 2013).

Because of intangible nature of Intellectual Capital, it is not very easy to measure and quantify it. It has no fixed value. Intellectual capacities differ according to space and time. One person can be good at one logical ability but can be bad at the other. Thus, mental faculties play a decisive role in this regard. Because of these intricacies, it has been difficult to

analyse the intellectual capital using the traditional tools and techniques. The traditional models have focused majorly on physical and financial assets. That's why the research work in intellectual capital and its database is still in infancy stage. The present study uses VAIC model for computing IC. The VAIC model is given by Ante Pulic (1998, 2000a). This model is preferred by most researchers over other available models for computing Intellectual Capital.
From previous studies, it is examined that the relationship between the corporate governance or intellectual capital on financial performance of a firm is not direct. Hence, it is vital to find a suitable link between these. Overall Financial performance of any firm whether it relates to manufacturing or service industry depends on outcome of interaction between CG and IC. There is dearth of research on how CG measures can be applied to improve business performance by leveraging IC resources. Hence there is a dire need to explore this less examined but very interesting area. The present study aims to bridge the gap in literature in this field. It views CG to be responsible for extra profitability for company after attaining maximum IC efficiency.

2. OBJECTIVES OF THE STUDY

This review paper focuses on following objectives:

a) To study the relationship between CG and IC.
b) To propose a conceptual model of CG and IC.

3. REVIEW OF LITERATURE

Kathuria and Dash (1999) observed the association of board dimension and business performence of the enterprises. The outcomes of the observation discovered that there is effective relationship between board dimension and performance of the enterprises; however the extra board participants contribution decreases when the enterprise dimension increases. The examination additionally confirmed that administrators share of equity ownership have no influence on the performance of the enterprises.

Firer and Williams (2003) located the affiliation between the VAIC by Intellectual Capital (IC) elements and company profitability, productiveness and market valuation. The outcomes of the investigation confirmed that the affiliation between value introduced by way of the IC elements and the overall performance dimensions are mixed. The examination additionally observed that Physical capital one of the elements of IC has strongest influence on company performance.

Bonn *et al.*, (2004) observed that board dimension and age of administrators have negative affect on the performance of Japanese firms. The results of observation additionally determined that outsider director ratio and woman director ratio have effective effect on the performance of Australian firms.

Chen *et al.*, (2005) observed association of VAIC, firm's market valuation and economic performance of the Taiwanese listed companies. The findings of the examination confirmed that value creation efficiency is positively affects the market value and economic performance of the organizations and the observation additionally located those traders place greater price on corporations which have higher intellectual capital efficiency.

Ghosh (2006) discovered that substantial influence of the board measurement on the accomplishment of manufacturing companies of India. The examination also observed that there is substantial influence of CEO compensation on the accomplishment of the firms.

Tan *et al.*, (2007) observed the affiliation between IC and economic performance of the a hundred and fifty publicly listed corporations on the Singapore Stock Exchange. The outcomes of the examination confirmed that there is a fine connection between IC and economic carry out of the firms.

Kamath (2008) observed that solely HC (Human Capital) one of the aspects of IC (Intellectual Capital) has fine influence on the productiveness and profitability of the Indian Pharmaceutical firms.

Jackling and Jhol (2009) study recognized that association between inner governance structures and economic performance of one hundred eighty Indian corporations listed on BSE. The effects of the observation confirmed that there is effective relation between board dimension and financial performance of the corporations and the observation also confirmed that the outside directors having a couple of directorships lowers the value of the firms.

Ameer *et al.*, (2009) the study investigated that the influence of composition of board while thinking about board structure on the performance of the Malaysian firms. Results of the observation confirmed that firms having outside and overseas directors on their board structure carried out higher as evaluate to companies whose board structure has extra insider government and non-executive director.

Hidalgo *et al.*, (2010) concluded that there is poor relation between institutional possession and intellectual capital voluntary disclosure. The observation additionally located that make bigger in the number of BOD and a high CEO duality has high-quality effect on disclosure of intangibles.

Fauzi and Locke (2012) published that there is effective relationship between board size, board committees, managerial possession and performance of New Zealand listed firms. The examination also observed that executive directors, woman directors and block holder possession negatively impact the performance.
Gugnani (2013) the observation showed there is poor link between board size, CEO duality and the economic performance of Indian firms. The examination additionally observed that board independence, promoter's shareholding and performance of the company is positively related.

Janosevic *et al.*, (2013) examined that influence of Intellectual Capital (IC) and its factors on financial performance of the one hundred Serbian corporations within real sector besides banking and insurance. The consequences of the observation confirmed that IC has no impact on net profit, operating profit and operating revenues of the corporations and the investigation additionally observed that human and structural capital have an effect on the ROE (Return on Equity) and ROA (Return on Assets), whereas physical capital has an impact on ROE.

Kumar and Singh (2013) examined the influence of promoter possession and board dimension on the value of one hundred seventy-six corporations listed on Bombay Stock Exchange. The consequences of the observation confirmed that board dimension has negative relation with the company value and promoter possession greater than forty percent is significantly effective associated with the company value.

Sharma (2013) study observed the association between board structure, board activities and the economic performance of the Indian corporations listed on BSE. The study confirmed that board dimension and company economic performance have strong positive relation. The outcomes additionally observed that common fifty five percent board are independent, it must be improved.

Dhamija *et al.*, (2014) the study examined the forty-one Indian companies listed on NIFTY Stock Exchange over a duration of 2006-2010. The results of study found that one variable of corporate governance that is CEO Role Duality might have significantly negative impact on firm performance. The study also observed that Financial Leverage which is measured by using DTC (debt to total capital ratio) has negative impact on firm performance.

Al-Musali & Ismail (2015) observed that a high significant poor affiliation between board size, presence of independent directors and IC overall performance. Study also observed that bank size does not have an impact on bank IC performance.

Appuhami and Bhuyan (2015) discovered that there is great relationship between board composition, CEO duality, remuneration committee composition and intellectual capital. The investigation additionally located that board size and audit committee composition have no huge relationship with intellectual capital.

Arora and Sharma (2016) examined that massive board dimension effect the performance positively. The examination additionally observed that there is no affiliation between profitability, Return on Equity (ROE) and corporate governance and CEO duality has no effect on the performance of Indian firms.

Jamei (2017) examined the relationship between corporate governance variables and Intellectual capital (IC). The examination observed that percentage of non-duty members, institutional possession and IC are positively related. The investigation additionally observed that the number of board members, managerial possession and IC are positively related.

Palaniappan (2017) discovered that board dimension is negatively affected with Tobin's Q, Return on Equity (ROE) and Return on Assets (ROA) of the Indian Manufacturing industry. The examination additionally observed that the relation between ROE and ROA is moderated via board independence and board meetings.

Sardo and Serrasqueiro (2017) investigated that IC enhances Western European firm's Financial Performance. The study showed that HCE, CEE have a positive impact on ROA, while SCE has a negative impact on ROA. The study also showed that IC enhance firm's Market Value as well. the study confirmed that HCE, SCE have a positive impact on firm's Market Value, while CEE has a negative impact on firm's Market Value.

Gangi *et al.*, (2019) found that the share of independent director, firm's CEO duality, and the connection of CEO compensation to shareholder return positively has an effect on VAIC. The study also found that the number of board directors might also not have an effect on IC affacy, the involvement of woman directors in the total range of board members is having negative effect on IC affacy.

Ni *et al.*, (2020) investigated that the relationship between the elements of IC and financial performance (ROA and Tobin's Q). The study showed that CEE has an effective and considerable impact on company financial performance represented through ROA and Tobin's Q. The study also observed that SCE has an effective and considerable impact on Tobin's Q, while HCE has a poor and substantial relationship with ROA and Tobin's Q.

Wahyuni *et al.*, (2021) the study observes mediating effect of corporate governance to the IC effect on firm performance. Examination of the study showed that the observation is being carried out on twenty-nine banking institutions listed on Indonesian Stock Exchange from 2016-2018. The examination showed that corporate governance components, Audit Committee and BOD, has mediating link to the association among IC and enterprise value also. The study further investigated that independent commissioner and institutional ownership, has no mediating effect.

4.PROPOSED MODEL

Finally, from the dialogue so far, this examination proposed that the corporate governance practices can magnify firm intellectual capital performance efficaciously. Thus, regular with this view, the conceptual framework for futuristic research is proposed in Figure 1.

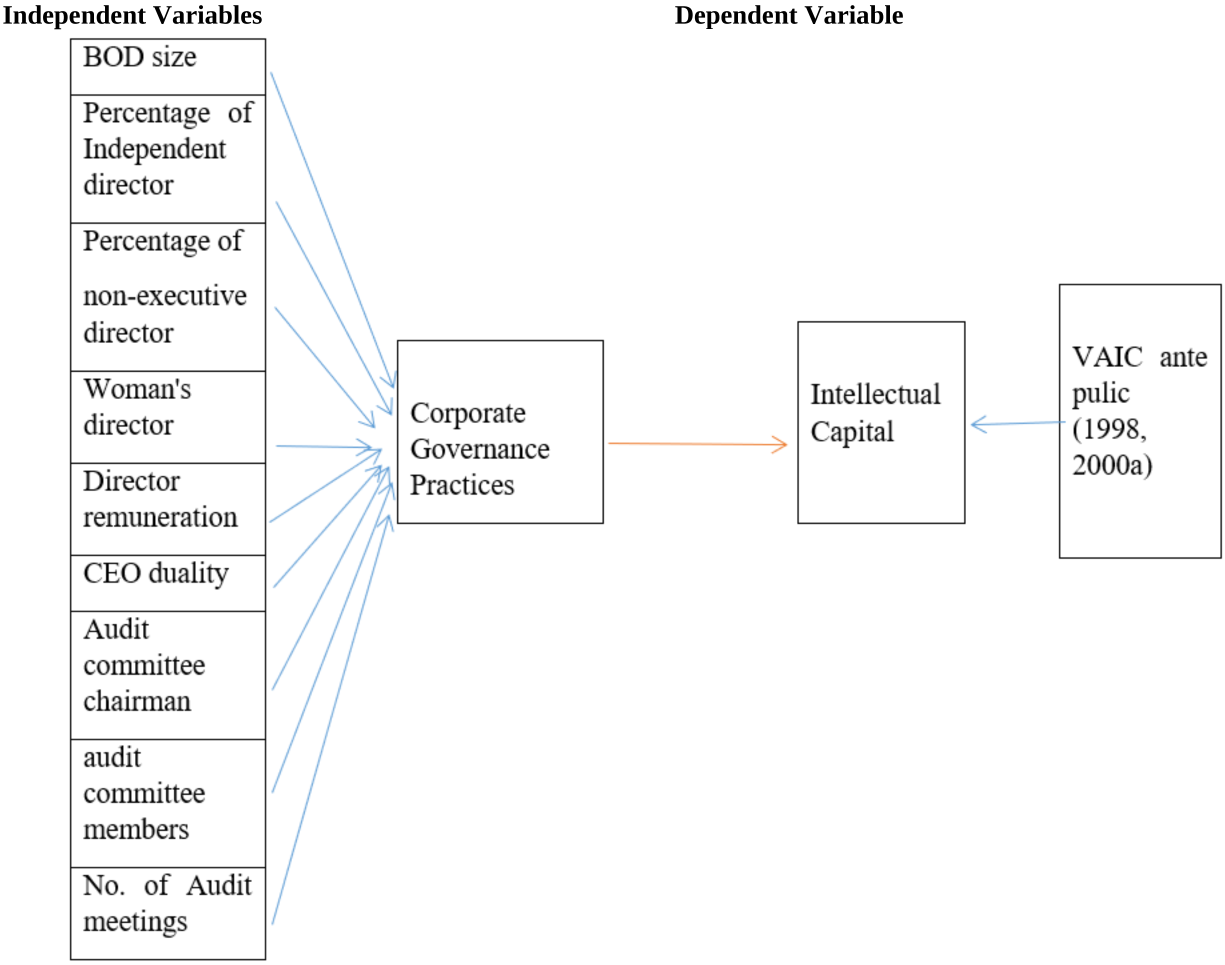

Figure 1. Research framework proposed

5.CONCLUSION

There are a lot of research in past so far has been done company governance; however, a few examination has been carried out of our understanding that enhances firm intellectual capital performances through corporate governance practices. The most important problem of learning was once to decide the structural correlations and ensuing affects of Corporate governance applications on enterprises intellectual capital efficiency. Our study hypothesized that corporate governance practices enhance the firm's intellectual capital performance. A single conceptual model of corporate governance and firm financial performance is proposed to study this relationship.

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