

Corporate Governance and International Orientation on Firm Performance

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Corporate governance is concerned with bringing the interests of investors/owners and managers in line and ensuring that firms are run for the benefit of investors. International Orientation refers to one's capacity to function effectively in a highly complex business environment across national boundaries. Corporate governance is believed to be a major driver for possible future growth among Small and Medium-Scale Enterprises (SMEs) locally and internationally.

SMEs

developing countries

corporate governance

1. Introduction

Corporate governance remains a problem in most emerging economies, mainly due to the failure to comply with basic principles. The Bank of Ghana noted this in revoking the licenses of 23 financial institutions that were continually engaging in unethical and potentially fraudulent business practices ^[1]. Singh and Pillai ^[2] suggest that a proper corporate governance framework is integral to firm performance because it promotes an investment atmosphere and motivates economic development. This has also been supported by ^[3], who accepted that governance structures positively impacted firms' output. Even though a modicum of consideration has been geared towards corporate governance in emerging economies ^[4], there is a lot which still lags in ensuring the appropriate corporate governance system.

Corporate governance remains a challenge to almost all firms, particularly as agency exists. The agency problem arises due to the associations between owners and managers ^[5]. It is, however, fascinating to believe the perception that corporate governance practices should not be critical to Small and Medium-Scale Enterprises (SMEs) because agency problems are not a major issue since they do not rely on the resources or assets of the masses.

Despite these arguments, there is a considerable call for the full realization of corporate governance codes, specifically for SMEs. This is mainly because good corporate governance can promote the SME sector by injecting better operational practices, tighter internal controls and greater prospects for expansion across borders ^{[2][3]}. This is likely to allow SMEs to expand their businesses into foreign markets due to globalization, the African Continental Free Trade Area and the advancements in information and communication technology ^[6]. There has been a strong argument that good corporate governance practice is an avenue for internationalization. Internationalization

indisputably leads to numerous rewards, even though a number of barriers may hamper SMEs from seeking to access international markets (including the lack of international mindset/orientation to take their businesses across borders) [7]. These barriers reduce the ability of SMEs to achieve their full potential in international markets.

Corporate governance is believed to be a major driver for possible future growth among SMEs locally and internationally [2][8]. In a recent literature review, ref. [2] report that SMEs' effective and discrete corporate governance practices promote growth and high performance. In sum, ensuring proper corporate governance structures in the mainstream work of SMEs undoubtedly tends to significantly increase output, especially in a developing economy like Ghana.

2. Corporate Governance and International Orientation on Firm Performance

2.1. Corporate Governance and Performance of SMEs

Corporate governance is concerned with bringing the interests of investors/owners and managers in line and ensuring that firms are run for the benefit of investors [1][2]. The concept of corporate governance is to allow firms to perform more effectively by encouraging accountability and conformity. The corporate governance literature establishes that corporate governance is one of the significant factors influencing performance [1][2][9]. According to [6], corporate governance is an effective means of realizing a company's corporate strategies, giving it a competitive advantage over its rivals through increased success and growth. However, [10] argues that there is no link between a superior firm that practices the best governance systems and performance. Other competing arguments suggest that corporate governance does not necessarily matter, but it depends on the prevailing economic condition in the industry [11]. Musah [12] portrayed the importance of incorporating effective corporate governance practices within SMEs in Ghana, as corporate governance plays a major role in moderating the relationship between firm performance and the internal control systems of SMEs. In similar veins, in their empirical research, ref. [13] found that corporate governance moderates a positive relationship between firm performance and financing choice decisions in SMEs.

In Kenya, ref. [14] reported that corporate governance structures were practical, as they influenced both managerial and financial performance. Abor and Biekpe [15] studied corporate governance, ownership structure and performance of SMEs in Ghana. The outcome was that the size of the board, its composition, management skills, and the duality of the CEO, inside, family and foreign ownership had a considerably optimistic impact on the success of SMEs. Koch-Bayram and Wernicke [16] added that managers endowed with the skill of persuading workers to abide by company rules are not likely to be implicated in any fraud.

2.2. International Orientation and Performance of SMEs

International Orientation refers to one's capacity to function effectively in a highly complex business environment across national boundaries [17]. According to [18], the process of internationalization among SMEs is now taking its

feet. Researchers have established that the international orientation of SME managers seems to be linked with the improved success of the firm's internationalization efforts [6]. Arguably, managers with a global mindset are better equipped to deal with the complexity and dynamics of multicultural business environments [19]. Misati et al. [12] shed light on the antecedents, behavior and outcomes of SME internationalization. Among the positive outcomes was found improved firm growth and product innovation, emphasizing that SMEs are motivated by a number of drivers such as entrepreneurs' education and experience, sustainability messages and technology.

Researchers such as [20][21] conclude that high profits, sustained performance and survival of SMEs are associated with internationalization. Beamish and Lu [22] reveal the presence of a positive correlation between profitability and strategic alliances, and exports and foreign direct investments. However, [23] argues that an international orientation on its own might not significantly increase a firm's international performance. In developing an international mindset, SMEs will be able to integrate viewpoints, expertise and knowledge into their decision-making process, which will positively impact performance.

2.3. International Orientation on Corporate Governance and Performance of SMEs

Nahapiet and Goshal [24] argue that the differences in the performance of companies could be attributed to differences in creating and exploiting social capital (networking). Firms can use relationships with external agents (international) to gain access to valuable information, new technologies, market access and other complementary resources, resulting in increased performance. Johanson and Vahlne [25] suggest that to develop internationalization processes, a firm acquires the necessary knowledge about foreign markets and operations mainly from experience operating abroad in increasingly more engaged entry modes. Networks built on trust enabled knowledge dissemination, market information and expertise sharing among SMEs [26]. Comparably, ref. [27] identified institutional networking, production innovation and market knowledge as critical success factors for SMEs' successful internationalization process in Indonesia. This corresponds with existing research that emphasizes the importance of network integration and network extension for SME internationalization [28]. A recent study [17] stresses the influence of some managers' international experiential knowledge of the firm's internationalization performance. This international orientation requires good corporate governance structures that make the formation of alliances possible.

Scholars of SMEs have also shown a positive correlation between productivity and exports [22]. For firms that use corporate governance practices, it leads to better performance. However, it could be that these companies may be focused too much on the domestic or local market. This might limit our thinking and conclusions in an era of globalization. There is a voracious increase in international trade sweeping across all continents which is, to a large extent, outgrowing domestic markets. In light of this, an international orientation allows companies to direct their corporate governance standards and market orientation across borders, where they can spend sufficient time and resources to gain profit.

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