The Impact of the Corona Pandemic on Companies and the Role of Governance Principles in Reducing them: An Analytical Study

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Abstract

This research paper aimed to clarify the impact of the Corona pandemic on joint stock companies, and to determine the role of corporate governance principles in limiting its effects. The results showed that the Corona pandemic affected companies operating in Iraq, as it affected all facilities of economic, social and health life and all countries of the world, which led to disruption in corporate activity, and also showed the role of governance principles in limiting the impact of the Corona pandemic on companies. A set of recommendations have been developed, including the need to adhere to the procedures determined by the competent authorities to reduce the effects of the Corona pandemic, and to enhance communication skills between companies and stakeholders using modern communication techniques and the Internet.

Keywords
Corona Pandemic, Principles of Corporate Governance, Joint Stock Companies.

Introduction

The new and volatile Corona pandemic began in China during the 11th month of 2019, which exacerbated and spread during the year 2020 to include all countries of the world and affected all sectors and activities. Or a decrease in production, closing of markets and restaurants, disruptions in the supply chain, depreciation in the value of shares, a decrease in sales and profits in a way that affects the confidence of shareholders and stakeholders in joint stock companies, and here appears the importance of the role of governance principles in limiting the impact of the pandemic, protecting shareholders’ rights and helping companies face the resulting risks. From the pandemic, the research was dealt with according to the following.
Methodology

Research Methodology and Previous Studies

The Research Methodology

1. Research Problem

The research problem can be summarized in answering the following question:
What is the impact of the Corona pandemic on joint stock companies, and did the principles of corporate governance contribute to reducing them?

2. The Importance of Research

The importance of the research lies in the importance of the topic it deals with, which is the Corona pandemic, which spread quickly in all countries, which was characterized by a state of ambiguity that the world had not witnessed before. The outbreak of the new Corona virus disease in an unprecedented global health and humanitarian crisis accompanied by widespread social and economic turmoil in various parts of the world. In light of the great spread of the pandemic and the impact of activities of various kinds and forms, and since companies operate in an environment affected by the repercussions and fluctuations of the Corona pandemic in a way that affected production, sales, profits, stock prices, it was necessary to have practices that guarantee the rights of shareholders and mitigate these effects. It helps shareholders achieve this by enhancing confidence and objectivity in the actions taken by the companies’ management, where correct, sound and clear information is communicated to stakeholders related to the company’s activity in light of the uncertainty and uncertainty associated with the pandemic.

3. Research Objectives: The Current Research Aims at the Following

1. Clarifying the impact of the Corona pandemic on the joint stock companies operating in the Iraqi business environment.
2. Determining the role of corporate governance principles in limiting the effects of the Corona pandemic.

From the second main objective, a set of sub-objectives are derived from the role of corporate governance principles in facing the repercussions and fluctuations of the Corona pandemic, as follows:

A. Effective legal framework for governance.
B. Disclosure and transparency.
C. Stakeholders.
D. Responsibilities of the Board of Directors.
4- Research Hypotheses

The research is based on the following two hypotheses:

1. There is no impact of the Corona pandemic on the work of joint stock companies operating in the Iraqi business environment.
2. The lack of a role for corporate governance principles in limiting the effects of the Corona pandemic.


6. Means of collecting information: It was relied on Arab and foreign sources available on the Internet that are related to the topic of the research.

Previous Studies

1. A study (Noor & Rashwan, 2021) entitled the expected role of corporate governance mechanisms to mitigate the effects of the Covid-19 pandemic crisis. The study aimed to shed light on the expected role of corporate governance mechanisms to mitigate the effects of the Covid-19 pandemic crisis. It relied on the descriptive analytical approach. The questionnaire was used as a study tool and distributed to the target community represented by chairmen and deputies of boards of directors, and members of governance committees in insurance companies listed in Palestine Stock Exchange. The most important results of the study are that the boards of directors of the insurance companies listed on the Palestine Stock Exchange are aware of the limits of their role and responsibility in providing oversight over management, and setting up effective mechanisms for governance to manage the emergency situation resulting from the Covid-19 pandemic crisis, and the managements of these companies adopt effective governance implementation mechanisms in light of the Covid pandemic 19, which need to provide the necessary support from stakeholders. The study recommended that companies disclose the effects of the Covid-19 pandemic on their strategic direction, objectives and operations, and the measures taken to address the negative effects resulting from the pandemic, which affected their operations and financial and administrative performance. During the participation of many stakeholders and company managements to face the negative effects of the Covid-19 pandemic.

2. Study (Atkins, et al, 2020) on accounting governance and integrated thinking in light of the Covid-19 pandemic. The study aimed to clarify the role of integrated reports in providing guarantees to investors regarding disclosures related to risk management, and the extent to which corporate governance contributes to increasing the effectiveness of companies.
The study took place in Britain. The most important results of the study are, that integrated reports are an ideal way to provide assurances to investors regarding disclosures of companies of critical importance about risk management. Sophisticated governance mechanisms can also help contribute to increasing the effectiveness and transparency of companies in managing risks and holding companies accountable for the impacts of the COVID-19 pandemic.

The study recommended that we need accounting frameworks, especially integrated reporting, as part of the broader corporate governance framework, and this is necessary to enable greater flexibility in the face of crises affecting business continuity, as well as to protect business and society from further epidemics, especially the Covid-pandemic-19.

3. Study (Foster, 2020) providing an overview of the impact of the COVID-19 pandemic on companies from a corporate governance perspective and the potential mitigation of this impact in South Africa.

The study aimed to first mitigate the impact of the COVID-19 pandemic on organizations, and secondly, enable them to position themselves and move forward in a better way to ensure the right strategy, business model and sustainable value creation in the optimal and most efficient way.

The study concluded that there are negative effects of the Covid-19 pandemic, as the Covid-19 pandemic was a catalyst and clearly showed the need for good corporate governance, and that companies with good corporate governance performed better than those that did not.


The study aimed to clarify the role of corporate governance in light of the Covid-19 pandemic in countries that have different governance mechanisms.

The most important results of the study are that some governance decisions in the countries concerned made a difference in mitigating the spread of the COVID-19 pandemic, along with strong community solidarity and community behavior. Extensive use of emerging technologies along with medical treatment and healthcare is being made to make the response more effective and reduce the risk of a pandemic. Although the epidemic was global, its responses have been local, depending on the social, economic and cultural context.

The study recommended focusing on strong community solidarity and societal behavior. and the extensive use of emerging technologies along with medical treatment and healthcare to make the response more effective and reduce the risk of a pandemic.

5. Study (Ungsuchaval& Kumlungpat, 2020).


A study aimed at identifying the response of the COVID-19 pandemic to governance. The study was conducted in Thailand.

The most important results of the study are that the information may not be complete, or completely up-to-date, due to the rapid spread of the Covid-19 pandemic, as well as the response
measures to governance mechanisms, and also indicated that boards of directors are facing a new complex reality as a result of the Covid-19 pandemic. The new environment is characterized by pressures and demands from different groups of stakeholders, and expectations for community participation are increasing, as the company's board of directors has faced the complexities of the decision-making process and challenges facing shareholder-focused governance that has important implications for boards of directors.

The study recommended the need to improve the quality of integrated reports, disclose their contents and make them more comprehensive, to increase the confidence of stakeholders in light of the uncertainty of the Covid-19 pandemic.

The location of the current study from previous studies.

The current study agrees with previous studies in several aspects, the most important of which is that it deals with the impact of the Corona pandemic on companies, and the extent to which the most important principles of governance contribute to protecting shareholders’ rights and mitigating the impact in the new business environment surrounded by ambiguity and uncertainty due to the Corona pandemic, and it is a study that deals with the Iraqi business environment and its impact by the pandemic.

Theoretical Framework of the Research

To achieve the objectives of the research and prove its hypotheses, it was relied on Arab and foreign sources available on the Internet that are related to the topic of the research, as follows:

Clarifying the Impact of the Corona Pandemic on Joint Stock Companies Operating in the Iraqi Business Environment

The spread of the epidemic has disrupted business activity and thus reduced production, which resulted in supply shocks, as well as led to the reluctance of consumers and business institutions to spend to a decrease in demand, as companies that depend on supply chains may not be able to obtain the parts they need, whether on the local or international level. For example, China is an important supplier of intermediate goods to the rest of the world, particularly in the fields of electronics, automobiles, and machinery and equipment, and the turmoil it is experiencing is already having spillovers to companies carrying out complementary processes. Together, these disturbances will contribute to raising the costs of doing business and will constitute a negative shock to productivity and reduce economic activity (Gopinath, Ghana, 2020). The impact of the Corona pandemic was reflected on many economic units, as it was not limited to units that work directly in tourism, airlines or service companies, but extended to almost all units. If we want to look for its impact on economic units, this can be observed by examining its impact on economic and financial markets. With the increase in the spread of the epidemic in terms of size and duration, economic units face conditions that are often associated with a general economic slowdown, and this includes, but is not limited to, Financial market volatility and deterioration, credit deterioration, liquidity risk, increase in government interventions, increase in
unemployment, significant decrease in consumer spending, increase in inventory levels, decrease in production due to reduced demand, layoffs and other restructuring activities. The persistence of these and other conditions can lead to a large-scale economic downturn, as well as have a long-term negative impact on the financial results of economic units (Deloitte, 2020: 1). Large international banks witnessed a decline in their stock prices, as the decline in stock market indices in March was mainly due to the flight of investors during the Corona pandemic (Ozili & Arun, 2020, p10). The Corona virus has greatly affected energy demand around the world, especially in China, which is today the largest importer of crude oil (CNN Arabic, 2020). There is a set of other effects that occurred as a result of the spread of the Corona pandemic, which can have an impact on economic units, which can be summarized as follows (BDO, 2020).

1. Decreased demand for goods and services as a result of the loss of incomes of many individuals, as well as restrictions on the ability of consumers to move freely.
2. Disruption of global supply chains due to restrictions on the movement of people and goods.
3. Lack of capital investment and construction movement, which reduces the demand for many goods and services.
4. Lower market prices for commodities and financial assets, including equity and debt instruments.

The Role of Corporate Governance Principles in Reducing the Effects of the Corona Pandemic.

A. Effective Corporate Governance Framework

Companies that have an effective and tight framework for corporate governance enjoy increased confidence of stakeholders, including investors, because these rules guarantee the protection of their rights. Therefore, we find that investors may think carefully before selling their shares in those companies even when they are exposed to temporary crises that lead to a decrease in their share prices for their confidence in the company's ability to overcome these crises, which makes these companies able to withstand in the crisis period, especially in the current crisis of the Covid-19 pandemic (Ungsuchaval & Kumlungpat, 2020). Establishing an effective governance framework helps to improve work and respond effectively to develop governance mechanisms to mitigate the effects of the Covid-19 pandemic in the medium and long term, and to achieve sustainable socio-economic development in many countries that need significant improvement, and governance has worked hard to mitigate the severity of the situation. Social and economic problems resulting from the COVID-19 pandemic (Ullah, et al, 2020). There must be a necessary limit of policies and regulations that ensure efficient, well-managed and effective workflow. In order to ensure an effective corporate governance framework, it is necessary to establish an effective organizational and legal structure that stakeholders can rely on to determine their relations with the company. The corporate governance framework usually includes elements Regulatory commitments, voluntary obligations, and doing business that are the product of state specific conditions (Pugliese, Bonacchi, 2020).
B. Disclosure and Transparency

The principle of disclosure and transparency of corporate governance is the main pillar to ensure confidence and objectivity in the procedures established by the corporate management, where correct, sound and clear information is communicated to all parties with interests in the company’s activity, and the corporate governance framework should ensure that proper, correct and timely disclosure of all Important corporate information including financial position, performance, equity, remuneration policy for directors and key executives, governance structures and policies (Villiers, Dimes, 2020). Many companies face unprecedented uncertainty about their immediate prospects in an environment that may challenge or disrupt their normal operations in boardrooms and governance. This ambiguity is likely to diminish over time with more disclosure and transparency of information related to the COVID-19 pandemic, as well as disclosure of the Board's risk monitoring disruption (Mark, Matthew, 2020).

The Organization for Economic Cooperation and Development also called for the necessity of disclosing risks related to corporate governance in financial and non-financial statements or discussing management and analysis of operations, which are usually included in the annual report, as well as disclosing the company's system to identify, assess and mitigate these risks in light of the uncertainty of the pandemic (OECD, 2020).

C. Responsibilities of the Board of Directors

The role of the Board of Directors is to develop strategies and carry out oversight through the application of effective governance principles, as well as coordinated communication with shareholders and stakeholders, and this is especially important during crises, especially in light of the Covid-19 pandemic crisis. The board of directors must provide guidance from the executive management and employees of the company, to determine the steps related to the company’s response to the Covid-19 pandemic crisis and work to protect the company’s financial structure as well as its reputation, and the board of directors must assess whether a review of governance structures is necessary to ensure appropriate performance to reduce the effects of The pandemic, as well as a full understanding of the risks to which the company and stakeholders are exposed arising from the Covid-19 pandemic and the consequent contraction of the company’s business, which may be of uncertain duration. In addition, the board of directors must evaluate its current strategy and determine the required actions from a short and long-term perspective in light of the pandemic (IDB, 2020). Given the importance of the role of the board of directors in companies, the principles of the G20 and the Organization for Economic Cooperation and Development recommend that all staff in companies Supporting the entire Board of Directors in the performance of its function, in order to avoid the division of the Board of Directors and ensure that all Board members take responsibility in all aspects of their work in light of the crisis of the COVID-19 pandemic (OECD, 2020).
D. The Role of Stakeholders

Employees, customers, suppliers and the community contract with companies that prioritize their interests, demonstrate additional progress in protecting stakeholders during crises, especially in light of the COVID-19 pandemic crisis, and enhance trust, goodwill and reputation; These companies understand that sustainable success depends on the health of their relationships with customers, employees, suppliers, shareholders and the community, and that strong relationships with stakeholders and the community are essential to accelerating the company's recovery and resilience efforts during the COVID-19 crisis. Stakeholder engagement with companies can help develop solutions to the COVID-19 pandemic and its economic and financial aspects, ensuring new risks and overcoming negative impacts are detected and treated appropriately. Companies should also disclose how to engage them with stakeholders and create a dialogue about the most appropriate ways to respond and develop appropriate solutions to reduce the pandemic. Governance principles need the company to disclose its response to the Covid-19 pandemic crisis to stakeholders in an understandable and timely manner (IFC, 2020). Shareholders and stakeholders must also participate by doing the following (IDB, 2020).

1. Assisting management in communicating with shareholders and investors in light of the Covid-19 pandemic crisis, holding virtual meetings of shareholders to the extent permitted by law, and disclosing material information that may have a financial impact on the company’s business or on the decision to keep or purchase securities or sell it.
2. Assisting management in engaging stakeholders, drawing the relationship between stakeholders related to the company, which includes (customers, suppliers, employees, local communities, government authorities, and regulators), implementing appropriate communication and transparency measures, and taking actions that reduce the crisis The COVID-19 pandemic will help avoid business confusion that can generate mistrust between stakeholders and company management.

Conclusions and Recommendations

Conclusions

1. The Corona pandemic affected the companies operating in Iraq, as it affected all the facilities of economic, social and health life and all the developed and undeveloped countries of the world, the rich and the poor, which led to a disturbance in the activity of companies that led to a decrease in production due to a decrease in demand and a change in consumer behavior, a decrease in profits. The suspension or decrease in tourism services, airlines, transportation and other service companies such as banks, in addition to the impact of the Corona pandemic significantly on energy demand around the world, including Iraq, as a producer and exporter of oil.
2. There is an organizational and legal structure in companies and an effective framework for corporate governance that ensures the protection of the rights of stakeholders under the conditions of uncertainty associated with the Corona pandemic.

3. Disclosure and transparency of corporate governance is the main pillar to ensure confidence and objectivity in the procedures set by corporate administrations to confront the Corona pandemic and limit its effects on the results of their work, as the corporate governance framework ensures that companies make proper and timely disclosure of all important information related to the pandemic.

4. The boards of directors in companies realize the importance of their role and responsibility in providing oversight over companies, employing the principles of governance to manage the emergency resulting from the Corona pandemic, and providing sufficient information about the risks that these companies may face under the pandemic, while defining the roles and responsibilities of the boards of directors and developing treatments Help reduce the effects of the pandemic.

5. The corporate governance framework includes protecting the rights of stakeholders established by law and clearly and properly defined for the participation of stakeholders in developing solutions to reduce the effects of the pandemic, and providing the necessary information that stakeholders need on an ongoing basis about the pandemic.

Recommendations

1. The necessity for all parties, inside and outside companies, to abide by the procedures determined by the competent authorities (the Crisis Cell, the Parliamentary Health Committee and the Iraqi Ministry of Health) to reduce the effects of the Corona pandemic.

2. Enhancing communication skills between companies and stakeholders using modern communication techniques and the Internet.

3. The need to focus on the legal and regulatory elements that reinforce the principle of the legal framework for corporate governance and activate it in a way that helps reduce the effects and emergency conditions resulting from the Corona pandemic.

4. The need for companies to disclose the measures taken to address the negative effects resulting from the pandemic that affected their operations and objectives, and to deepen the principle of disclosure and transparency regarding mitigating the effects of the pandemic by adopting an effective and efficient governance system that helps concerted efforts to overcome any potential effects and ensure the continuity of activity and operations companies.

5. The boards of directors seek to achieve the goals by using the powers granted to them by the principles of governance, which enable them to seek the assistance of internal and external experts and analysts to overcome the pandemic and to help them make the right decisions and determine the actions required to achieve the goals.

6. The establishment of risk management units in companies to ensure the ability to carry out tasks with high efficiency in emergencies accompanying the pandemic, employing the
principle of stakeholder involvement, clarifying the relationship between stakeholders related to companies and implementing appropriate communication and transparency procedures that help the company to take measures that limit the effects of the Corona pandemic on companies.

7. Develop guidelines to counter rumors related to the pandemic.

8. Raising community awareness of the need to continue normal coexistence with the pandemic.

References


BDO, 2020, COVID-19 – Accounting, Reporting and Other Related Considerations.


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