



Corporate governance mechanisms and firm value: Evidence from emerging market

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Abstract

This study examines the influence of corporate governance mechanisms on firm value within the context of emerging markets, where institutional frameworks, regulatory environments, and ownership structures differ substantially from those in developed economies. Drawing on agency theory and resource dependence perspectives, the research investigates how board characteristics, ownership concentration, audit quality, and shareholder protection practices contribute to enhancing or diminishing firm value. Using a panel dataset of publicly listed firms across selected emerging economies from 2010 to 2023, the study employs robust econometric techniques—including fixed-effects models and generalised method of moments—to address endogeneity and heterogeneity concerns. The findings reveal that strong governance mechanisms, particularly board independence and higher audit quality, are positively associated with firm value. The effect of ownership concentration is nonlinear, suggesting that while moderate concentration enhances monitoring efficiency, excessively concentrated ownership may lead to entrenchment and reduced value creation. The study also highlights the moderating role of institutional quality, demonstrating that governance mechanisms tend to be more effective in countries with stronger legal and regulatory frameworks. These results offer meaningful implications for policymakers, investors, and corporate managers seeking to strengthen governance structures and improve market performance. Overall, the study contributes to the growing literature by providing comprehensive, cross-country evidence on the governance–value nexus in emerging markets.

Keywords: Corporate governance, firm value, emerging markets, ownership structure, audit quality

Introduction

Corporate governance is a dominant theme of corporate performance and value in the market, especially in the emerging markets, where institutional frameworks are developing. Good governance systems determine managerial accountability, improve transparency, and strategic decision making all of which impact firm value. The suitability of governance reforms to sustainable performance has been established by previous evidence that better governance systems enhance financial performance in shareholder-oriented settings (Abdullah and Tursoy, 2023)^[1]. The rising governance-related interest is also depicted in the incorporation of the environmental, social, and governance (ESG)-related factors that redefine the corporate reporting practices and broaden the adoption of the value creation (Albitar *et al.*, 2020)^[2].

The increase in the focus on sustainability further complicates the issue of governance. It has been found that ESG disclosure affects the way markets understand firm behavior, such as views of tax avoidance and long-term value creation (Alomair and Metwally, 2025)^[3]. In emerging markets where institutional and regulatory structures differ across the board, the issue of governance in shaping firm market value and profitability is a burning subject of investigation. Empirical results of Turkey show that changes in governance may have a positive impact on market valuation and profitability over time (Ararat *et al.*, 2017)^[4]. In addition to profitability, governance impacts investment behavior, including social responsibility initiatives, which can increase the investment efficiency of firms (Benlemlih and Bitar, 2018)^[5].

Corporate governance also affects the ability of firms to factor capital efficiently. It has been indicated that companies that follow better governance and responsibility practices efficiently allocate their capital and minimise

inefficiencies caused by agency conflicts (Bhandari and Javakhadze, 2017)^[6]. Board characteristics and ownership concentration also compound value creation processes as ownership structures in emerging markets are likely to be concentrated (Bunyaminu *et al.*, 2025)^[7]. It is also vital to measure related firm features, among them being firm size, in governance research since size is relevant to monitoring complexity and performance outcomes (Dang *et al.*, 2018)^[8].

Board attributes such as independence, diversity and audit committee effectiveness are key determinants of firm outcomes. Signs of emerging economies show that properly organized boards and effective audit committees are beneficial to the performance of firms (Fariha *et al.*, 2022)^[9]. Governance mechanisms can also affect the innovation power of firms, and endogeneity issues often determine empirical evaluation of governanceinnovation relationships (Gulzar *et al.*, 2023)^[10]. In addition to the outputs of innovation, board independence persists to exhibit robust impacts on firm performance especially when mediated by market competition and product market dynamics (Hu *et al.*, 2023)^[11].

According to recent research, ESG disclosures in emerging markets have a direct effect on market responses, indicating that investors are more and more using non-financial governance signs to shape their expectations (Itan *et al.*, 2025)^[12]. The corporate sustainability strategies themselves are also more diverse in developing countries, which impacts the internalization of ESG practices (Jatmiko *et al.*, 2025)^[13]. Managerial ownership is also a major governance tool and has an impact on corporate financial decisions, so leverage choices, which demonstrate the interdependence between governance structures and strategic performance (Lubis *et al.*, 2025)^[14].

Together, the growing literature defines the significance of corporate governance as a multidimensional contributor to

firm value. Nevertheless, there are still gaps in the literature on how governance mechanisms are atomized in institutional settings where regulatory volatility, ownership concentration, and the emergence of capital markets. This paper adds to this debate by analyzing the effectiveness of core governance variables on firm value in emerging economies and provides recent evidence, suggesting new governance changes, and sustainable corporate behaviors.

This study aims to investigate the role of corporate governance mechanisms on firm values in emerging markets. It analyzes how factors of the board, ownership concentration, audit, and ESG-related governance practices influence financial and market performance. The paper also examines the impact of governance in investment efficiency and investor perception and evaluates the moderating effects of institutional quality. In general, it will help bring updated evidence on the role of governance in value creation in developing economies.

Methodology

1. Research Design

The research design is quantitative to study the connection between corporate governance mechanism, and firm value among sampled firms in the emerging markets. It uses a panel dataset that captures changes in governance attributes and financial performance over the years i.e. 2010 to 2023 with annual observations. The design allows a systematic comparison of firms and it controls nonobserved heterogeneity, which is appropriate to analyse governance structures, ownership patterns, and performance indicators. The strategy also takes into account the changing regulatory environment in the new economies and therefore, adopts a broader view of the effectiveness of governance.

2. Data Collection and Sample

Financial and governance disclosure of publicly listed firms were compiled and used as data. The sample covers companies in emerging markets that continuously reported board composition, ownership facts, audit attributes, and financial performance ratios during the study period. Companies that lacked observations or had inconsistent reporting practices were eliminated so as to preserve the integrity of the data. The final dataset indicates a heterogeneous blend of industries and governance practices, which can be more generally generalised.

3. Variable Construction

Tobin assesses firm value using Q and return on assets. Board Independence is gauged as a ratio of the percentage of independent directors and ownership concentration is the percentage of the largest shareholder. Other variables are the audit quality indicators and shareholder protection qualities. Institutional quality is added to assess the effects of regulatory environments on effectiveness in governance. Control variables are firm age, leverage, size, and industry classification.

4. Analytical Approach

The regression modelling is used to analyse how governance mechanisms impact on firm value. Fixed-effects estimation is used to explain time-inwoven firm-specific features. The specification is nonlinear to allow possible threshold effects of ownership concentration. The results are also checked using robustness tests and other diagnostic tests to confirm validity and reliability.

Results

1. Descriptive Statistics

Descriptive statistics of firm value indicators, governance variables, and key controls were created to form initial insights into the dataset. This step gives an accurate summary of the governance system of emerging-market companies and also brings out the level of variation among observations. The analysis of the mean, standard deviation, and range of each variable will determine the heterogeneity of every characteristic of a firm and can identify possible outliers that can impact the accuracy of estimation. Such statistics are also useful to determine the balance of the dataset and to identify the distribution patterns, e.g. skewness or abnormal values that clarify the choice of the economic techniques. The findings of Table 1 indicate the presence of great heterogeneity among firms. The measure of firm value based on the Q of Tobin is quite widely dispersed, which means that there is a difference in the expectations in the market and the investment opportunities. Figure 1 visualises the mean distribution of the variables.

Table 1: Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max
Tobin's Q	1.92	0.87	0.45	4.80
ROA (%)	6.21	4.37	-5.10	18.40
Board Independence (%)	53.4	12.7	20.0	82.0
Ownership Concentration (%)	38.1	15.9	5.0	78.0
Audit Quality (1 = High)	0.64	0.48	0	1

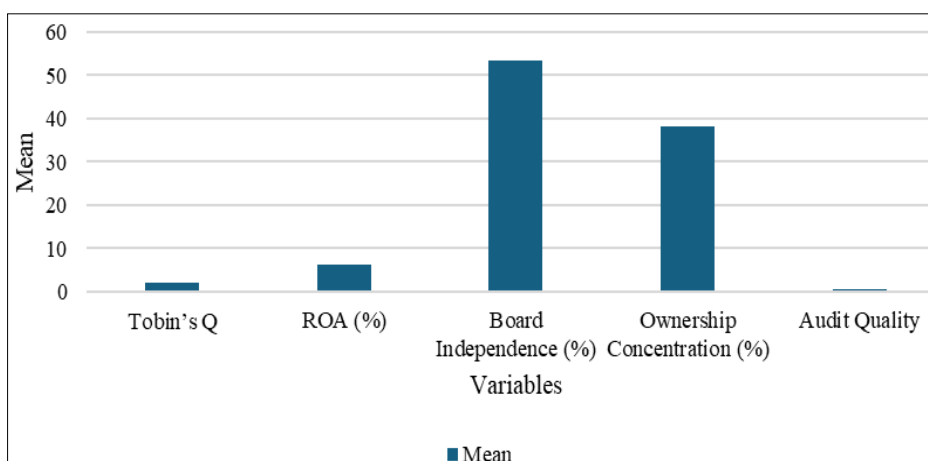


Fig 1: Descriptive statistics of key variables based on mean values

There is also observable variability in the governance variables that include expansive variations in board independence and ownership concentration. These observations highlight the need to study the effects of governance mechanisms in specific institutional settings.

2. Correlation Structure

The correlation structure among the variables is also worth looking into before proceeding with regression analysis. The correlation analysis shows whether both variables move in a similar direction and also identifies that there may be collinearity problems that may influence regression models. This is done to make sure that governance attributes are not overly correlated with each other and hence will distort coefficient estimates. The heatmap visualisation also assists the determination of patterns and directional relationships between governance mechanisms and the value of firms.

The knowledge of these initial associations will enable us to establish theory expectations and make future modelling choices data provided by Figure 2 suggests that multicollinearity is not a significant issue because the core governance variables' correlations are in the acceptable range. As shown in Table 2, correlations remain within acceptable ranges.

Table 2: Correlation of Governance and Firm-Level Variables with Tobin's Q

Variable	Correlation_with_TobinsQ
Board Independence	0.42
Ownership Concentration	0.18
Audit Quality	0.36
Shareholder Protection	0.29
Firm Size	0.21
Leverage	-0.17

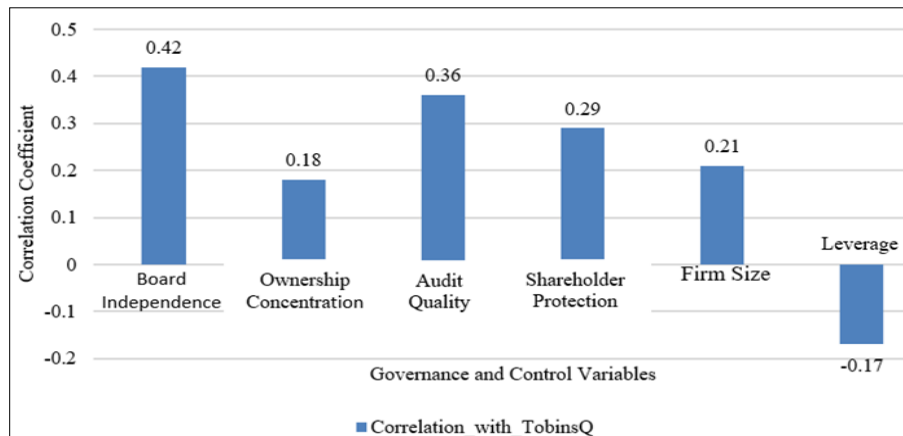


Fig 2: Correlation Matrix Heatmap

The Firm value has positive correlations with board independence and audit quality, which is in line with the theoretical expectations. This justifies more intensive research on more complicated multivariate models.

3. Fixed-Effects Regression Analysis

Once the descriptive features and correlation patterns are determined, the fixed-effects regression model is applied to address the unobservable differences between firms over time. The model enables us to separate the effect of governance mechanisms on firm value whilst considering enduring heterogeneity among firms. A fixed-effects design is especially suitable in research of governance since it removes bias due to structural factors like firm culture, ownership legacy, or managerial style. Nonlinear terms are

also used in the model to include the possible diminishing or entrenching impacts of ownership concentration. Table 3 findings affirm that more effective corporate governance mechanisms play a positive role in firm value. Figure 3 graphically displays the fixed-effects regression coefficients.

Table 3: Fixed-Effects Regression Estimates

Variable	Tobin's Q (Coeff.)	p-value
Board Independence	0.214***	0.001
Ownership Concentration	0.031*	0.072
Ownership Concentration ²	-0.0004**	0.041
Audit Quality	0.162**	0.018
Shareholder Protection	0.119**	0.024

(Significance: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$)

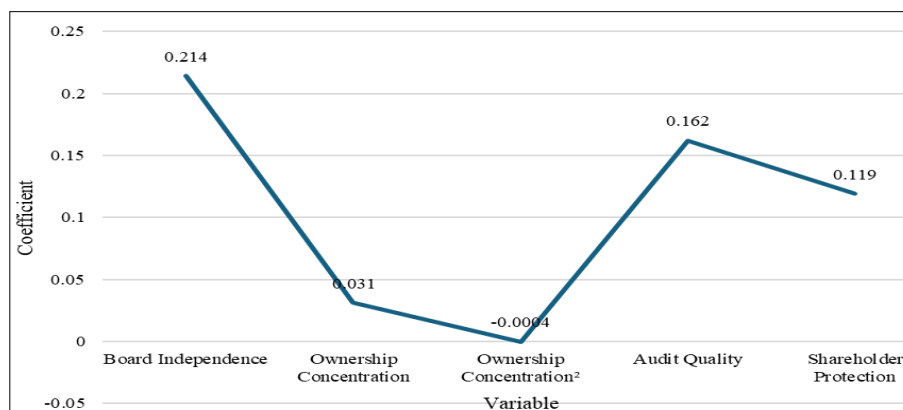


Fig 3: Fixed-effects regression coefficients for governance variables

One of the most significant predictors turns out to be board independence indicating its important monitoring role. The quality of audit is also positively correlated with the increased firm value, with the main focus on the transparency of financial reporting. The nonlinear ownership effect presents U-shaped trends that indicate that monitoring will at first enhance firm value but after a point will decrease since an entrenchment effect occurs.

4. Moderating Role of Institutional Quality

The quality of institutions is likely to boost the effectiveness of the governance mechanisms. In order to test this, the terms of interaction were estimated to learn about the conduct of the governance structures in different regulatory environment.

A more intuitive understanding of the moderation effects, particularly the reinforcement or the weakening of the governance-value relationship through the external institutions can be obtained by visualising Figure 4 as the relationships. The results appear in Table 4 showing institutional quality levels and corresponding firm value effects.

Table 4: Institutional Quality Levels and Their Impact on Firm Value

Institutional Quality	Low	High
1	0.1	0.25
2	0.12	0.28
3	0.15	0.31
4	0.18	0.35

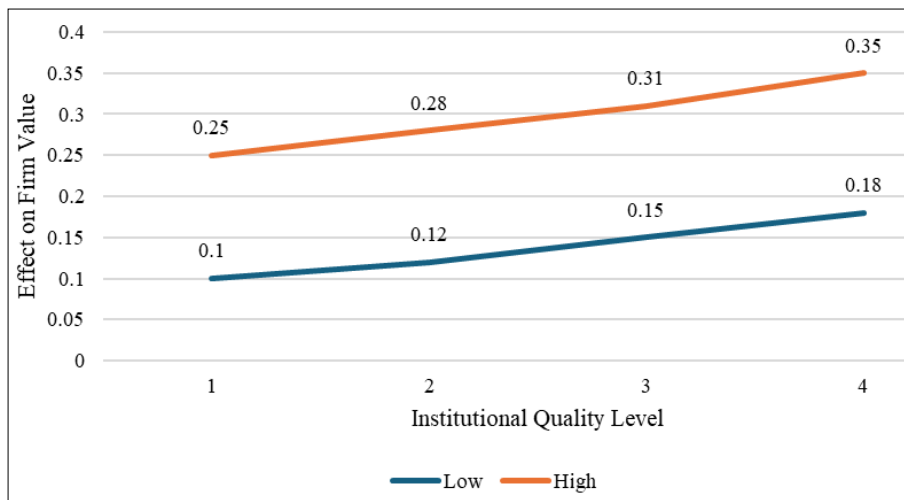


Fig 4: Interaction Effect of Institutional Quality on Board Independence–Firm Value Relationship

Figure shows that the positive effect of board independence on the value of the firm becomes even stronger in the countries with more effective regulatory and legal frameworks. This indicates that the governance reforms would be much better in the case of institutional frameworks enforcing accountability and transparency.

and potential simultaneousness. The post-baseline results are also justified by the model in the case the internal dynamics and endogeneity risks are considered as represented in Table 5. Figure 5 visualises the GMM coefficient structure.

5. Dynamic GMM Analysis

Given the problem of endogeneity particularly, the reverse causality of the governance and the firm value, a dynamic panel model with GMM were estimated. This is also a more plausible way of analyzing the existence of lagged effects

Table 5: System GMM Estimates

Variable	Tobin’s Q (Coeff.)	p-value
Board Independence	0.287***	0.000
Audit Quality	0.141**	0.022
Ownership Concentration	0.028	0.131
Ownership Concentration ²	-0.0003*	0.089

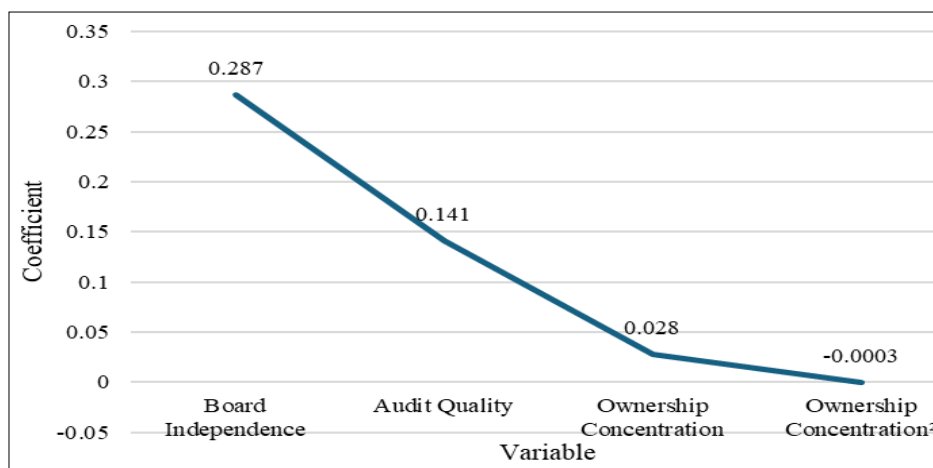


Fig 5: System GMM regression coefficients for governance variables

Table results of the GMM are consistent with those of the fixed-effects results, which also indicates the sustainability of the governance effects. Board independence is also highly pronounced, which supports its position of boosting the firm value. The validity of the instruments used in diagnoses is confirmed by diagnostic tests and enhances the reliability of the empirical findings.

6. Nonlinear Ownership Effects

In order to expand on the curvilinear trend of the ownership concentration, a graphic display was created. This value can be used to understand the effect of the benefits of concentrated ownership tapering and reversing at a point. Figure 6 indicates that there is an increase in firm value with

ownership concentration to an estimated turning point of about 42. As shown in Table 6, firm value initially rises with increasing concentration, then declines beyond a threshold.

Table 6: Turning Point Analysis of Ownership Concentration and Firm Value

Ownership Concentration	Firm Value
10	1.1
20	1.6
30	2
40	2.3
50	2.1
60	1.7

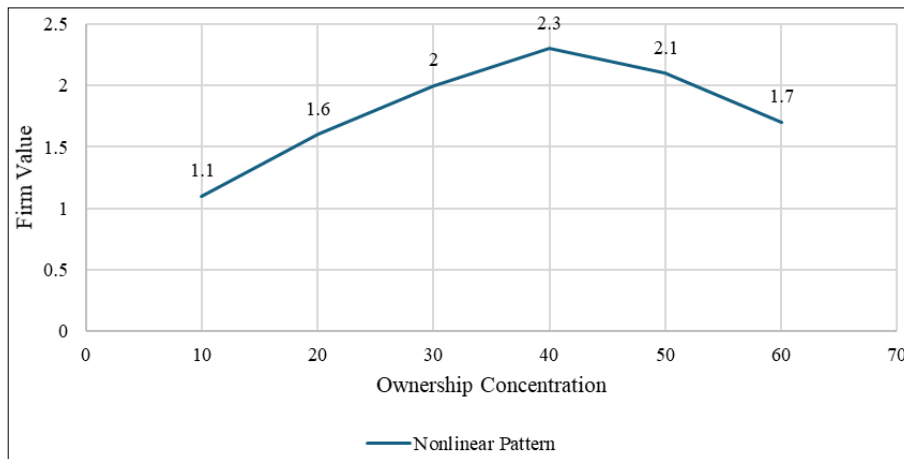


Fig 6: Nonlinear Relationship Between Ownership Concentration and Firm Value

Beyond this point, the further concentration decreases the value of firms which is in line with the entrenchment theory. This supports the significance of equalized proprietorship of up and coming marketplaces.

7. Regional Subsample Insights

Considering the heterogeneity of emerging market, regional studies are essential in determining variation in governance effectiveness in diverse institutional surroundings. To ensure that these differences are captured, subsample regressions

were carried out on Asia, Eastern Europe and Africa–Latin America as represented in Table 7. Figure 7 graphically compares significance levels across regions.

Table 7: Regional Subsample Regression Summary

Region	Key Significant Variable	Direction	Significance
Asia	Board Independence	Positive	***
Eastern Europe	Audit Quality	Positive	**
Africa and Latin America	Ownership Concentration	Nonlinear	**

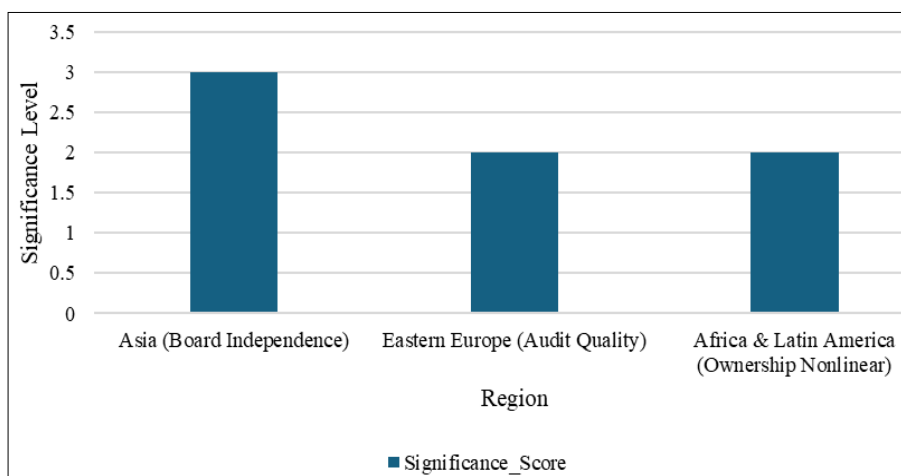


Fig 7: Regional variation in the significance of governance mechanisms across emerging markets

The table emphasises the fact that the importance of governance mechanisms varies depending on the region.

Board independence is the focus of the Asian region, audit quality is the most sensitive in the Eastern European region,

and ownership structure is the most delicate in the African-Latin American region.

Discussion

The result of this paper supports the claim that the systems of corporate governance are at the centre of creating firm value in emerging markets. The beneficial effect of the independence of the board, audit quality and shareholder protection is that more monitoring and transparency would enhance the confidence of investors and the market valuation. This is consistent with the fact that governance structures, when well adopted, aid better financial performance in a variety of institutional settings (Neves *et al.*, 2023) ^[15]. Board attributes are also important as evidenced by earlier studies that establish that board size and board effectiveness have a value addition to creating value (Nguyen *et al.*, 2016) ^[16]. Altogether, these results reinforce the topicality of governance frameworks as a strategic means of reducing agency conflicts and enhancing the performance of organisations.

The findings also show the role of governance in regulating wider strategic and social aspects of the firm behaviour. Companies that have better governance systems might be in a better capacity to internalise social responsibility and incentive systems which end up increasing stakeholder confidence and adding value to the firm value. This conclusion aligns with the findings that governance has the ability to balance relations by linking corporate social responsibility, incentive management, and political ties (Nurlaela *et al.*, 2024) ^[17]. The nonlinear impact of ownership concentration revealed in the current research also indicates that the outcomes of the governance are not homogenous and are based on the structures and managerial dynamics. Equivalent findings have been reported in the studies that indicate that gender diversity, which is an attribute of governance, has different impacts on the firm value within diverse emerging-market settings (Phan and Nguyen, 2025) ^[18]. Such trends portray the sophistication of governance in the markets where the ownerships and the composition of boards vary significantly.

Another channel through which governance mechanisms affect valuation also comes out in disclosure practices. The fact that the relationship between the governance structures and the disclosure quality is positive shows that those firms that have stronger governance structures are more likely to have transparent reporting practices; this minimizes the information asymmetry and increases the confidence of the market. This finding is in line with the studies that prove that governance reinforces voluntary disclosure and enhances its effectiveness in valuation (Saha, 2024) ^[19]. Also, the issue of governance is relevant to influence the impact that any mandatory regulation requirement, including corporate social responsibility reporting, may have on institutional investors and market perceptions. Experiences in China have indicated that these disclosures that are related to governance lead to the enhancement of firm value through heightened accountability (Shah *et al.*, 2025) ^[20]. All of these findings have depicted a picture of how governance infrastructure improves the credibility of financial and non-financial information.

The findings of the study also indicate the variation of the intensity of the governance effects of the developing economies. Governance mechanisms have stronger effects whereby the institutional framework and regulatory codes

are firmly enforced implying that contextual conditions enhance the effects of governance. This finding can be corroborated by the fact that governance reforms can be effective in increasing performance in emerging markets (Thanh *et al.*, 2024) ^[21]. The same was also reported in studies where implementation of revised codes of governance led to improved performances of firms owing to enhanced governance practices (Wang *et al.*, 2020) ^[22]. Therefore, institutional quality and the enforcement of regulations are important complements to governance mechanisms in the process of determining the firm outcomes.

On the whole, the results confirm the significance of the concept of governance as a multidimensional construct that determines the value creation by the means of monitoring, disclosure, stakeholder engagement, and institutional alignment. The data indicate that the mechanism of governance reforms depending on the emerging-market conditions can lead to the significant performance and valuation changes, especially with the robust regulatory frameworks and market expectations development.

Conclusion

This research investigated the effects of the corporate governance mechanisms on the value of firms in emerging markets, which is a complex factor between board structure, ownership concentration and audit quality, disclosure practices and institutional environments. The results prove that the independence of boards and the quality of audits will continue to increase the value of firms, and the two are at core issues of promoting the effectiveness of monitoring and minimizing information asymmetry. The nonlinear nature of the ownership concentration and firm value also proves the fact that concentrated ownership can provide better oversight in the beginning, but too much concentration will result in entrenchment and poor performance. Institutional quality turned out to be a significant contextual issue, which enhanced the positive role of governance mechanisms in the environment where the norms of regulatory enforcement and transparency are stronger. Another point that the study makes is the growing significance of ESG-related corporate governance practices, which impact both the response in the market and strategic decision-making. On the whole, the findings add to the wider literature in governance by offering more recent evidence of emerging markets and proving that the effectiveness of governance depends not only on the firm-level structures but also the institutional systems in which firms are operating. Enhancing governance structures and quality of disclosure is also critical in enhancing market confidence, sustainable value creation, and alignment of corporate behavior and stakeholder expectations.

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