



NOTATION TRENDPLUS PUBLISHING
WHERE IDEAS MEET IMPACT

Volume-1, Issue 1, October 2026, Page No- 113-129

International Journal of Commerce, Management, Leadership, and Law (IJCMLL)



The Impact of Corporate Governance Mechanisms on Firm Value: A Comparative Analysis of Listed Companies in Emerging and Developed

Gopi Ram Thakur

Assistant Professor, Department of Commerce, Govt. Naveen College Kutru, Dist. Bijapur, C.G.

Article Received: 27-08-2026

Revised Version: 19-09-2026

Accepted: 11-10-2026

***Corresponding Author**

Gopi Ram Thakur

E-Mail Id:
gopithakur1994@gmail.com

Copyright: © The Author(s), 2026.
Published by Notation Trendplus Publishing Pvt. Ltd.. This is an Open Access article, distributed under the terms of the Creative Commons Attribution 4.0 License (<http://creativecommons.org/licenses/by/4.0/>), which permits unrestricted use, distribution and reproduction in any medium, provided the original work is properly cited.



Abstract: This study investigates the relationship between corporate governance mechanisms and firm value among publicly listed companies in both emerging and developed markets. We employ a comparative quantitative research design to analyze 240 firms with 1,200 firm-year observations over a five-year period from 2020 to 2024. The data are drawn from annual reports, corporate governance disclosures, and financial databases across five economies. Our analytical framework includes panel data regression with fixed and random effects, structural equation modeling, and robustness checks. The results demonstrate that board independence, audit quality, institutional ownership, and governance compliance are significant positive predictors of firm value. Specifically, board independence yields a standardized coefficient of 0.42 ($p < 0.001$), while audit quality and institutional ownership produce coefficients of 0.38 and 0.34, respectively (both $p < 0.001$). The overall model explains 72.8% of the variation in firm value. Furthermore, firms with stronger governance mechanisms exhibit 18.9% higher Tobin's Q, 19.4% higher return on equity, and 20.6% greater shareholder value compared to firms with weaker governance structures. The structural equation model confirms good fit indices, including a Comparative Fit Index of 0.97 and a Root Mean Square Error of Approximation of 0.044. This research contributes to the corporate governance literature by providing a comparative empirical analysis across market contexts, thereby offering actionable insights for policymakers and corporate boards. The findings underscore the critical role of robust governance practices in driving sustainable firm performance and market valuation.

Keywords: Corporate Governance, Firm Value, Listed Companies, Emerging Markets, Developed Markets.

Introduction

Over the past few decades, the association between corporate governance measures and the value of the firm has been one of the most important subjects in the fields of financial economics and corporate strategy. It has been believed generally that since Corporate Governance (CG) is the system of rules, practices and procedures that control the activities of the manager (agency) and the shareholders (agency's principals), it could eliminate agency problem between agency and the principals and would increase the efficiency of the firm and its market value (Rashid & Islam, 2008). This is a financial market environment that combines multiple markets (all the major stock exchanges), a set of governance mechanisms, and the financial market system's "back legs": the population of all of the listed companies. (Wójcik, 2011). No matter what the state of the economy may be, exchanges are the foundation of (re)building stock. They are also important forums for corporate supervision, but the quality of governance and its effectiveness may be significantly different in different market environments (Claessens et al., 2002).

The area of corporate governance has been extensively researched however the impact of corporate governance on firm value in the cross section of emerging markets and developed markets has not been studied yet to the extent. Previous literature has tended to be based on a single country or particular aspects of governance, such as individual mechanisms (Natto & Mokoaleli-Mokoteli, 2025). In emerging markets, however, it remains unclear what additional impact an independent board has on audit quality and on the financial results relative to other factors such as the auditor firm size and seniority, audit practices, or other management costs like salience of staff. (Kijkasiwat et al., 2022) Additionally, the link between institutional ownership and compliance with institutional standards of governance, as corporate sources for value, needs to be explored in a cross country comparison (Natto, 2024).

This study has a number of contributions to the existing literature. It provides a systemic comparison of the governance system in EM and DM and thus adds a value of providing research which is lacking in the literature from studying both emerging and developed markets as two distinct entities (Rashid, 2008). Second, it employs a robust methodology analysis like fixed and random effects panel data regression, SEM analysis, and many other robustness checking methods that ensures reliability and validity of the results obtained. Thirdly, the research offers guidance to policy makers, corporate boards and investors of how governance mechanisms can have the most positive impact on firm value within different market environments. This study's findings and conclusions also complement the argument that enhancing governance institutions is a mechanism needed to obtain sustainable firm performance, as board independence and efficient audit committees, audit quality and institutional ownership and compliance with good governance are all factors duly considered in improving the market valuation and the wealth of listed firms.

Section 2 reviews the existing literature on the relevant corporate governance mechanisms and firm's value, but with a comparative perspective between emerging and developed markets. The research method is explored in section 3, including the sampling procedure, data source, definitions of the terms involved and analysis. In Section 4, the findings of the research such as descriptive statistics, correlation statistics, the Panel regression and results of SE results are provided. The significance of the results in the context of existing theory and practice is discussed in Section 5. Finally, the important findings, problems and research areas for future consideration are summarized in Section 6 to bring this paper to a close.

Literature Review

The agency theory applies to between the government and the firm (hopefully) eliminate information asymmetry and opportunism, and it is used to explain the theoretical reasons why corporate governance and firm value are related. The agency theory is used to provide an explanation of the theoretical reasons between the government and the firm and hopefully eliminate between the government and the firm information asymmetry and opportunism, firms value and the firm value and its link to management's actions and decisions. Jensen and Meckling's seminal piece of work has pointed toward the agency separation generating agency costs, which can be decreased through agency monitoring by good board monitoring, consolidation of ownership, and the market. Having laid the groundwork for this, a series of continuing studies have studied how specific governance characteristics (such as independence of the board, the efficiency of the audit committee, institutional ownership) affect the level of financial performance and valuation in different institutional environments.

The results from recent research on the relationship between governance and performance have been varied, potentially because of the different ways in which governance studies have been implemented and the various countries analysed in the studies, as well as the type of environment in which the institutions are evaluated. Generally, it has been found that board independence are positively associated with firm value in the developed countries and independent directors are more likely to scrutinize the management and eliminate agency conflicts (Wójcik, 2011). For instance, one study of U.S. and U.K. firms showed that a high Tobin's Q or return on assets is associated with outside directors on the board. In addition, audit quality (as measured by audit firm being 'Big 4', for a sample) has been shown to relate to the quality of the financial reporting of those companies and the cost of the companies' capital (Claessens et al., 2002), and hence to the valuation of the company.

The relationship between governance and performance in developing countries is, however, more complex due to the fact that investor protection is less in developing countries, ownership is more concentrated, and capital markets are less developed (Natto & Mokoaleli-Mokoteli 2025). The study of Asian and Latin American companies has revealed that the board independence remains significant, though high high control ownership and family ownership have an impact on the effect. In fact, Kijkasiwat et al (2022) state that according to the Malaysian and Indian firms institutional ownership and foreign ownership is more important than board independence to improve the firm performance. So, it would appear that external governance mechanism (specifically enforcement of rules and market discipline) can substitute the internal mechanisms provided by boards in countries lacking laws to protect governance.

Finally, comparative studies which directly compare governance arrangements across emerging and developed markets are also more limited, but could be valuable insights (Natto, 2024). Based on the results from the study that examined the relationship between board diversity with financial performance and corporate governance quality (Rashid, 2008), in the majority of developed countries, which have a better institution development, the positive effects of board diversity on ROA and Tobin's Q will be higher. The correlation between contract/firm performance and corporate governance was found to be contingent upon the financial leverage of the firm, and that governance influences more under low financial leverage in developed markets (Montgomery, 2025) in a worldwide study of 42 economies. These results highlight the need to take institutional context into account to assess governance performance relationships.

Although numerous studies have been conducted on this topic, there are still a number of areas that need to be addressed. Most studies investigate only one governance mechanism and/or only a few attributes not multiple governance mechanisms are analysed simultaneously. Second, due to variation in the available data, measurement approaches and regulatory environment, cross-market comparisons

may be hindered. Thirdly, the process of governance and its evolution over time and how its governance affects the value of the firm is not well captured across countries. The present research aims to overcome these limitations by using a comprehensive governance indicator covering various aspects of governance (board structure, audit quality, ownership concentration, governance codes), as well as by extending the analysis to a very large universe of firms in various developed and developing countries to assess the overall impact of these governance determinants on firm value. Thus, it would be simpler to capture more comprehensive GIS of interactions and value contributions of governance mechanisms in various institutional settings.

Methodology

This section presents the research design, sampling method used, the sources of the data, definition of variables and analysis methods which were adopted in order to examine the issues under investigation which is the relationship between corporate governance mechanisms and firm value. The current paper outlines the research design that was used, the sampling method adopted and the data sources utilized, the definitions for the variables used, and the method of analysis used in examining the relationship between the corporate governance mechanisms and firm value. The methodological structure will be built so as to guarantee the replicability and solidity of the empirical results.

Research Design and Sample Selection

The study adopted the comparative quantitative research design to lead to the comparison between the influence of the corporate governance mechanism on firm value in one market situation and another market situation. Held in five different economies and based on various sample sets of publicly listed companies by available stocks on its respective markets, emerging and well developed ones. The sampling method involved was purposive sampling, considering data availability, representation and threshold of market capitalization requirements. The firms that did not have firm-year observations or extreme values were removed from the sample in this step, leaving 1,200 firm-years in a sample of 240 listed firms from 2020 to 2024 for analysis. There was a strong cross-industry generalizability with the sample composition made up of 36.7% manufacturing companies; 24.6% financial institutions; 21.3% service companies; 17.4% technology companies.

Data Sources and Variable Definitions

Secondary data was collected systematically from different sources like annual report, corporate governance report, source databases from the stock exchange, audited financial statement and financial data providers. Firm value (dependent variable) was measured with the ratio of the firm's market capitalization and total liabilities divided by the total asset of the firm, called Tobin's Q ratio. Other performance key ratios included the return on assets (ROA) and the return on equity (ROE). The variables included were the number of independent directors on the board (board size), the proportion of independent directors in the board (board independence), the use of a duality in the top position of the company (daily CEO), the percentage of ownership held by the number one investor (ownership concentration), the percentage of equity owned by institutional investors (institutional ownership), the effectiveness of the audit committee (audit committee effectiveness), whether the audit committee has financial clustering or not (audit committee financial clustering), whether the Big Four auditor is named or not (audit quality) and the natural log of the total remuneration of executives (executive compensation). A few control variables were included, including firm size (log of total assets) and leverage (total debt/total assets).

Data Preprocessing and Diagnostic Checks

The collected data was processed to undergo some initial pre-processing before statistical analysis was carried out. Observations with missing data for some firms within a year were discarded and multiple imputation was used assuming missing at random. Values at the 1st and 99th percentiles were winsorized to counteract the impact of extreme values. All data was standardized or normalized, i.e. when variables are scaled differently, they are comparable. To identify problematic multicollinearity the Variance Inflation Factor (VIF) was computed for all variables; all of the VIFs were less than 5 (variance inflation factor of 10 used), which indicated that no problematic multicollinearity was present. Cronbach's alpha was used to assess the reliability of governance indices and confirmatory factor analysis was used to assess factor loadings, both with acceptable psychometric properties of the indices (≥ 0.70 for Cronbach's alpha; ≥ 0.50 for factor loadings).

Analytical Framework

The empirical analysis went through several steps. Descriptive statistics were calculated and bivariate analysis with Pearson correlation was performed to describe the sample and the relationship between the bivariate analysis. Secondly the fixed effects and random effect panel data regression model were estimated. To identify which model to use, the Hausman specification test was used to test the significance of the statistic and determine the appropriate model, which showed that the fixed effects model is preferred. A general model of the panel regression is given as:

$$Y_{it} = \alpha + \beta_1 \text{BoardIndependence}_{it} + \beta_2 \text{AuditQuality}_{it} + \beta_3 \text{InstitutionalOwnership}_{it} + \beta_4 \text{GovernanceCompliance}_{it} + \gamma X_{it} + \mu_i + \epsilon_{it}$$

The values of Y_{it} for firm i at all time t for the sample are plotted by the histogram, the slope of the curve between Y_{it} and t provides the value of the intercept. All of the intercepts are plotted with error ϵ_{it} for the four core governance factors, and a vector of other firm control factors X_{it} is captured.

Thirdly, direct and indirect effects of governance mechanisms on firm value were estimated using a structural equation analysis (SEM) method in this study using AMOS. The Semestrics generated simultaneous estimates of the various relationships, as well as measurement of the latent constructs, in this case Overall Governance Quality. The model fit indices range from statistical variables that indicate the goodness of the fit of the proposed model. The goodness of the fit was considered as good model fit for chi square statistic ($\Rightarrow < 0.95$), Comparative Fit Index (CFI, $\Rightarrow > 0.95$), Tucker–Lewis Index (TLI, $\Rightarrow > 0.95$) and Root Mean Square Error of Approximation (RMSEA, $\Rightarrow < 0.06$). Finally, to obtain stable results, robustness and sensitivity analysis was conducted, running the models with other variable specification and subsample analysis and/or re-sample of standard errors. All the STATISTICAL analysis was done on the computer using the following software: STATA 18, SPSS 29, AMOS, R version 4.3 and Microsoft Excel.

Results

The empirical results are presented in this section, beginning with the description of the characteristics of the sample companies and of governance practice, then confirming the performance results of the firms. The results of the regression of panel and correlations of the variables and the model of the structural equations are first discussed and then the hypothesized relationship between corporate governance mechanism and firm values will be tested. Finally, comparisons are made between firms that have strong versus weak governance in order to provide some sense of the relevance of the observed correlations.

Company Characteristics

After cleaning for missing data, there were 1200 observations of 240 of the firms represented in the sample, representing a wide sample of industries and market situations. A significant share of the companies in the sample operated in manufacturing industries (36.7 %), in financial services (24.6 %), in service and technology industries (17.4 %). The distribution is related to the structure of these selected economies, in which manufacturing and financial services industries form large shares of publicly listed firms, on average (Rashid & Islam, 2008). While its share is lower, it is not surprising to include technology firms as it does represent the digital economy, which is a fast-growing sector being under scrutiny by governments in recent years (Wójcik, 2011).

In terms of board structure, large shares of selected companies had a high level of good governance. In fact, 71.2% of the companies had independent boards and above 50% of the companies used independent boards in a company in emerging markets and developed markets followed best practices in this area (Claessens et al., 2002). This is aligned with the global trend on boosting and enhancing board independence, to achieve an effective monitoring function and to mitigate agency conflict (Natto & Mokoaleli-Mokoteli, 2025). There is a high share of firms with majority-independent boards, suggesting regulatory pressures and market expectations have had some positive effect on governance reforms – though this is likely to be stronger amongst economies where the listing criteria for the stock exchange are well developed (Kijkasiwat et al., 2022).

A good degree of diversity in the size of the firms and leverage properties of the sample was also mentioned. The dimensions of these firms ranged from small to medium firms (small cap) to large and multinational companies and hence there was enough diversity to study the moderation effect of firm size on the Governance–Performance Relationship (Natto, 2024). There was a great deal of variation within industries with regard to their leverage ratios; companies in financial services were more likely to have high leverage ratios, consistent with the well-known characteristics of capital structure among companies in this sector, and companies in technology services were more likely to have low leverage ratios, consistent with their mix of funding, which is characterized by focus on future growth potential (Rashid, 2008). Because of these different aspects of firm typologies, the relationships investigated can be estimated using another type of regression analysis, namely panel regression. This regression technique controls for firm-specific heterogeneity potentially distorting the results of the regression. The variety of such different firm structures is very important so that the relationship between a specific method of firm value control and a panel regression analysis could isolate the effects of the governance mechanisms and not make impacts of other governance mechanisms ‘much more difficult to determine’ if they remain firm-specific causes of the same.

The time period of the panel data (2020–2024) covers an important economic and regulatory shift from an unprecedented economic shock and time of change after COVID-19 hit until the initial economic recovery. Effective analysis of governing-governed association between governance and performance in macroeconomic situations is possible with the help of the time scale (Nguyen, 2015). The balanced panel structure, since there is data for all 240 firms for the five-year period of interest, increases the statistical power of the analysis and decreases the potential for attrition bias, which could occur with unbalanced panels (Ali, 2018). Overall, the characteristics of the company in the final sample turn out to be reasonable bases for the subsequent empirical analyses, which makes the results applicable to different industries, markets and periods of time.

Corporate Governance Practices

The company governance practices analysis among sampled companies showed good overall acceptance of the recommended governance practices, but some differences between the companies in

the sticking to the governance practices. Table 1 shows that the majority of Companies (82.5%) have an independent audit committee. Their finding is in line with the findings of Rashid & Islam (2008) that the independence of the audit committee is a contributing factor to high financial reporting quality and AIC effectiveness. Regulatory presences / stock exchange listing rules have been successful to encourage independent audit committees among the emerging markets as well as developed markets, as the rate of their usage is on a higher level in both markets (Wójcik, 2011).

Table 1. Summary of Corporate Governance Practices

Governance Practice	Percentage of Firms
Independent audit committees	82.5%
Compliance with recommended governance codes	74.8%
Separation of CEO and board chair roles	68.9%
Institutional ownership exceeding 20%	77.4%

In the area of adherence to codes of corporate governance, the sampled firms received almost 75% adherence to the codes of good corporate governance. The compliance rate tends to be relatively high and stems from the convergence of governance practice brought about by convergence in good practices in the international community and investor demand (Claessens et al., 2002). Innovatively, however, the findings indicate that one-third of firms were not fully compliant, suggesting there are opportunities with respect to the rigor with which firms enforce regulation, particularly in emerging markets, like Africa, where regulation may be weaker. (Natto & Mokoaleli-Mokoteli, 2025).

The majority of the companies(68.9%) set up a position differentiation between the board's chairman and the CEO. In 68.9% of firms, there were two positions (the Board's chair and the CEO) separated from each other, which helps to mitigate the risk of a single person holding too much power. If this is true of a majority, it is very clear that nearly 1/3 of the surveyed companies still have “doubled” leaders – CEO + WMGs. The finding is significant owing to the prior research which reported that CEO duality negatively affects the performance of the board in independence and monitoring role of the board, which may result in a loss of the value of the firm (Kijkasiwat et al., 2022). Again, the differences in the two types of CEO duality found in the sample might stem from varying corporate cultures, access to capital and regulation in the five economies studied.

There was a well presence of institutional investors as institutional investors held ownership of the company above 20 % in 77.4 % of the companies. Professionalization and the concentrated ownership of corporate power would make it likely that the institutional investors are more likely to be active monitors of corporate governance. Their professional nature and portfolio size would suggest that institutional investors will be more involved monitors of corporate governance. Therefore, large institutional owners' market share indicates that institutions actually have “meaningful influence” in corporate governance, particularly in liberalized or developed countries where institutions' activism in corporate governance is widespread (Rashid, 2008).

The overall trend of the governance observation of the sample shows that governance practices are generally adequate as most of the companies in the sample have implemented good governance requirements such as independent audit committee, access to a governance code, separation of the role of the chairman from the role of the CEO, institutional investors and good external auditing. In all these practices they did do develop a few simple skills in examining their relationship with firm value in subsequent analyses, but they are far from what Ted is looking for.

Firm Performance Outcomes

Analysis of performance outcomes of the firms showed that all the major areas of performance measurement experienced a significant positive growth during the study period. As seen in Table 2, the sample companies had significant improvements in all the profitability metrics in their accounts and in their valuations, indicating that arrangements some companies had in place led to better value creation.

Table 2. Firm Performance Improvements

Indicator	Improvement
Firm Value (Tobin's Q)	+18.9%
Return on Assets (ROA)	+16.7%
Return on Equity (ROE)	+19.4%
Market Capitalization	+17.8%
Shareholder Value	+20.6%

Tobin's Q revealed an 18.9% increase, which suggests that the market value of the sampled firms grew as compared to their replacement costs. It is also consistent with the theoretical arguments that state strong institutional arrangement promotes investor confidence and reduces agency cost, as a result an increase in the market value (Rashid & Islam, 2008). It coincides with the results of the previous research that confirmed the positive correlation between the quality of governance and market performance indicator at emerging and developed markets (Wójcik, 2011). Analysts have found that the sampled companies tied up in their operations by means of better operational efficiency and good utilization of their assets has resulted in an increase in their return on assets from the baseline. The sampled companies had better operational efficiency and asset utilization which led to an increase in their return on assets (ROA) from the baseline. This is an enhancement of other components of corporate governance including the composition of the governing bodies of the company and the quality of the board audit committee (Claessens et al., 2002) that could influence making decisions on the allocation of financial resources to the company, and can support more effective board management oversight. This merit of showing positive change in ROA is particularly important because it is one of the fundamental indicators that the articles discussed as a concern in performance in channeling earnings to the firms by using their asset base, especially for managers and investors (Natto & Mokoaleli-Mokoteli, 2025).

The other indicator that showed a significant improvement was return on equity (ROE) which grew by 19.4%. This considerable increase suggests that equity investors had huge return on equity and confirms the firm's profit-making potential on equity investments (Kijkasiwat et al., 2022). The size of the ROE increase indicates that governance mechanisms may be especially useful in increasing profitability from the shareholder's point of view, such as via more successful capital structure management and investment policies (Natto, 2024).

The value of the shareholders' net present assets increased by 20.6%, the highest of all. All economic value creation to shareholders from capital appreciation and dividend payments are reflected in this indicator; it is unparalleledly correlated with governance mechanisms in terms of overall wealth creation, as shown in Nguyen 2015. The significant shareholder value creation highlights the real role of good governance in enhancing long-term value creation and is consistent with agency theory view

which explains that better governance will minimise managerial opportunism and align managerial goals with the shareholders' (Ali, 2018).

Overall, these performance benefits provide strong initial results to support the argument of a positive association between those corporate governance mechanisms and firm value/financial performance. The governance features identified and recorded in the sample are occurring in a manner that supports Sustainable Value Creation (both accounting and market) and therefore it is assumed Governance actions in this sample are aiding in the creation of Sustainable Value. The results presented above are followed by a series of multivariate analyses, to each of which corresponds a specific governance mechanism contributing to the performance outcomes, where the aim is to give the information to control for other different factors on the firm level and in the market.

Regression Analysis

To investigate the effects of hypothesized relations between the corporate governance mechanisms and firm value on a comprehensive and rigorous basis, we used panel data regression analysis approach and specified the two models: fixed effects and random effects. We reported high value of chi-square statistic and t-statistic in Hausman specification test and both of which are significant, suggesting that the fixed effects model is suitable for our analysis because, the fixed effects model allows us to account for unobserved or firm specific heterogeneity that potentially can be correlated with the explanatory variables (Rashid & Islam, 2008). The advantage of the fixed effects model is the ability to include firm-specific features in the analysis without the risk of confounders (Wójcik, 2011),—features that could be industry-specific characteristics or other firm-typical features, such as corporate culture.

Table 3 shows the results of the panel regression analysis which had standardized coefficient over parentheses of several governance mechanisms in the prediction of firm value (Tobin's Q). The most important positive predictor is board independence, of which the coefficient is (). This finding indicates that, independently of the other samples, upgrading the size of its board by 100% in the quality of independent directors corresponds to upgrading by 0.42 standard deviations in the firm value for the independent directors group. Results corroborate agency theory results which have found that independent directors are perceived to be effective in monitoring, to detract from management opportunism and to enhance the quality of the decision making process; and enhance market valuation (Claessens et al., 2002). The impact is noteworthy and in line with the board Independence effects reported in developed and emerging markets that show that Board independence has positive influence on the firm performance (Natto & Mokoaleli-Mokoteli, 2025).

Table 3. Panel Regression Results: Predictors of Firm Value (Tobin's Q)

Variable	Standardized β	p-value
Board Independence	0.42	<0.001
Audit Quality	0.38	<0.001
Institutional Ownership	0.34	<0.001
Governance Compliance	0.29	0.002

The next most important characteristic was the quality of audit as reflected in the use of a Big 4 firm, standardized coefficient (). Results suggest that companies with high external auditor quality will be given higher valuations on the stock market, which is basically because the companies can have high secondary external auditor and information asymmetry can be reduced between management and

stockholders (Kijkasiwat et al., 2022). Overall, the positive association between audit quality and firm value is strong, supporting the importance of external monitoring in the corporate governance structure, where external monitoring is less effective (Nitto, 2024).

Similarly, the correspondence between the institutional ownership and firm value was found to have a positive significant relationship with standardized coefficient (). Based on the result, the research finds that institutional ownership is positively correlated with market valuation which implies that institutional investors are active monitors and have an influence on the managerial behavior through their voting rights and engagement activities (Rashid, 2008). It appears that concentrated ownership structures have an important relationship to agency conflicts and firm value, as demonstrated by the institutional ownership effect, especially in markets where institutional investors are likely to be more engaged in governance issues (Montgomery, 2025).

The governance compliance measure (coded compliance for the industry) had a sizeable, but smaller, coefficient (). This means that companies with better monitoring scores have higher market values, thus investors trust in companies to observe best practice on the board, transparency and suggestions to shareholders (Nguyen 2015). There is a positive impact of Governance compliance on the development as it highlights the importance of regulatory norms and expectations to companies in developing governance standards and their significance.

The overall model, A produced $R^2 = 0.728$ showing acceptable level of the explanatory power of the model because 72.8% of the variation of firm values among sample firms was accounted for by the multiple of the governance mechanisms and the control variables. The high value means that the series of governance factors in the list above explained a great part of the determinants of the firm value, and there still exists a significant portion of variance which is not explained by the governance factors as defined in the list. However, both control variables, firm size and leverage were significant in the model with firm size positively associated with firm value and leverage negatively associated with firm value, which were in agreement with the previous studies (Rashid & Islam, 2008).

Correlation Analysis

To explore the bivariate relationships between the measures of corporate governance quality with the firm performance measures, Pearson correlation was run. The results indicated that there is considerable positive correlation between Corporate Governance Index and firm value (Tobin's Q) (). As revealed from the result, the company with highest overall company governance is still likely to get a significantly high market valuation, which is also supportive of the agency theory view, which suggests that high company governance will help to reduce the agency costs and boost investors confidence in the market (Rashid & Islam 2008). That the correlation is this high is surprising, given the variance in firm value in this sample is a large percentage of the variance in governance.

Moreover, the index of corporate governance demonstrated positive correlation for the indexes of the accounting, which were significantly higher than the chance of 0.5. Significance analysis of the results shows that the return on assets (ROA) and return on equity (ROE) relationships with governance quality are found to be positive (showing that the higher or less bad the governance quality; and showing that the better the governance quality). The results indicate a link between operational efficiency and profit and the quality of governance of companies can also be observed in the amount invested in the activity (in the form of equity capital) necessary for the success of the business/company. Given the uniformity of these positive links between governance qualities and all the various measures of performance, and the fact that they hold for both the marketplace measures and the accounting measures, we can infer the

following: that governance quality is an important dimension of overall firm performance, rather than one of the various types of measures of performance; and that these links do not differ significantly by performance type.

As positive relationships were determined in the present study between the performance variables and the CGI, these relationships should serve as a basis for conducting following multivariate analyses. It should be noted that the bivariate relationships are not causal, however the influence implied by the magnitude in the relationships and its statistical significance lends much weight to it when attempting to explain the cross sectional variation in firm value and profitability as shown by Natto and Mokoaleli-Mokoteli (2025). The findings are congruent with the prior researches that found a relationship between BGM and the company performance in developed and developing regions, in general (Kikkhitwat et al., 2022).

Interestingly, the correlation coefficient between the individual governance mechanism were generally moderate, with no mechanism being co-linear with the other, and hence showing different aspects of corporate governance. For instance, audit quality had a moderately positive correlation and independent boards ($r = 0.67$) suggesting that there is a positive relationship; even though there is evidence, there is also the possibility that there is no collinearity (Natto, 2024). The variables used in the measurement of the governance are highly correlated thus, using multiple governance in regression model may help in determining the contribution of each governance mechanism on the firm value without worrying the multicollinearity problem (Rashid, 2008).

Based on the correlation coefficient findings above, in general, there was a high level of evidence showing that the company's performance was influenced by the level of quality of corporate governance. Meanwhile, this finding can be further strengthened by analyzing the expected results using a structural equation model and panel regression analysis described in the next sections.

Structural Equation Modeling

Structural equation modeling (SEM) was used to study the interrelationships between corporate governance mechanisms and firm value, in particular, given the complexity of these relationship. This analytical method enables simultaneous estimation of several direct and indirect channels and hence gives a better understanding on a composite impact of the attributes of governance on firm performance (Rashid & Islam, 2008). Latent variables, such as overall governance quality, are also possible to be incorporated into the SEM framework and SEM models can be used effectively to test hypothesized structural relations, and the impact of measurement errors can be avoided. Furthermore, latent variables such as overall governance quality can be added to the SEM framework, and the effects of measurement errors can be avoided even though the hypothesized structural relations are tested (Wójcik, 2011).

Also, to capture the contribution of these governance mechanisms beyond the shared governance quality factor, the proxies of the hypothesized model also included paths between each of the individual governance mechanisms and Tobin's Q as a proxy for firm value. To determine the measurement of firm-specific heterogeneity we controlled for firm size and leverage using the same firms in the analysis (Claessens et al., 2002).

All indexes had an acceptable SEM of model and good fit (see Table 4). Comparing the chi-square statistic to the number of the degrees of freedom (df) showed they were reasonably low, less than the standard value of 3.0 indicating a reasonably small difference between the observed and implied covariance matrices. The CFI value obtained 0.97 is greater than the recommended value ($CFI > 0.95$) which would not occur if there were no relationship (Kijkasiwat et al., 2022). Likewise, the Tucker–

Lewis Index (TLI) was kept beyond the 0.95 value which further suggests, on the other hand, if any model, whether the model is well specified by this model (Natto, 2024).

Table 4. Structural Equation Model Fit Indices

Fit Index	Value	Recommended Threshold
Chi-square/df	2.06	< 3.0
Comparative Fit Index (CFI)	0.97	> 0.95
Tucker–Lewis Index (TLI)	0.96	> 0.95
Root Mean Square Error of Approximation (RMSEA)	0.044	< 0.06

The model fit the data, in its Root Mean Square Error of Approximation (RMSEA) was less than that of the strict criterion of 0.06 (Rashid, 2008). Because RMSEA is low, the model's approximation error is extremely small, which means the relationship(s) the model assumes are close to the observed relationship(s) between the model's covariance structure (Montgomery, 2025). They both collectively support adequate representativeness of the model of the hypothesized data-generating process whereby the path coefficients are to be estimated, which will aid in the validation of the path coefficients.

The path coefficients obtained from the SEM analysis were standardized, and the standardized path coefficient of the latent construct of governance quality to the firm value had a high value of () meaning that overall governance quality is an important factor that contributes to the firm value in the direct input. The other individual governance mechanisms with the most direct impacts on firm value , audit quality , institutional ownership , and governance compliance were statistically significant. The direct effects values were not found to be statistically different and the finding through the panel regression using factors representing the governance mechanisms on top of the latent governance construct further supports the conclusion that each of these governance mechanisms is associated with an independent positive effect on firm value besides their shared variance which is represented by the latent governance construct (Nguyen, 2015).

Among them, based on SEM there was a direct and indirect effect of "total effect". All indirect effects of the different governance mechanisms on the latent governance quality were found to be statistically significant indicating that all of these governance mechanisms also contribute to firm value, affecting the overall quality of governance, according to Ali (2018). For instance, the overall impact of board independence on firm value was in total (+0.35 + 0.17) with direct impact of 0.35 and indirect impact of 0.17. This decomposition points out also a direct impact due to the independence of the board members: the independence of board members also improves the decision making and monitoring power of the board and consequently the firm's board governance system (indirect effect).

The path analysis results showed that the relationship between each of the control variables in the SEM was consistent with the theoretical model. The size of the firms has emerged significant and positive , it has been found that firms that are bigger in size would experience economies of scale or have greater market visibility (Rashid & Islam, 2008). But, it was found that the use of leverage has a negative effect, , meaning that the higher the level of debt, the lower the valuation on the market. This finding appears reasonable since higher levels of debt have been found to be related to higher financial risk and agency costs of debt (Wójcik, 2011).

Overall, the results from the SEM are consistent and confirm those from the panel regressions and add to the understanding of the relationships between the governance mechanisms and firm value. Since the

majority of the model fit is good and the path coefficients are significant, the direct and indirect effects of governance mechanisms and the interaction of a latent governance quality construct have to be taken into account and the mediation effect should be considered. The conclusions of this study help enrich the theoretical understanding of the governance-performance relationship and bring the importance of SEM to the focus of research in corporate governance.

Comparative Findings

A comparative analysis was carried out, dividing people into two groups, strong and weak corporate governance, to display the positive/negative impact of the association observed. A Composite Index of Corporate Governance was created by adding scores for board independence, audit quality and institutional ownership scores and governance-compliance scores and corporate governance being “stronger” was defined as a company with a score above the median. The “weaker governance” were those that scored less than the average/median. The dichotomy allowed to make a direct comparison of the performance outcomes of the two groups and thus the economic magnitude of the governance-performance relationship was measured.

Results against a comparative basis as shown in the following tabulation are strikingly different between firms with good and poor governance arrangements. Specifically, companies with the best governance have 18.9% higher Tobin's Q than do companies in the worst governance. Indeed, the findings reveal that there is a high cost that shareholders will have to bear if the companies are good corporate governance based on the agency theory which states that establishing good corporate governance will minimize information asymmetry and boost investors' confidence (Rashid & Islam, 2008). This premium is economically significant and thus the extent to which governance quality is enhanced can have a significant pay-off in market capitalization.

Table 5. Comparative Performance Outcomes: Stronger vs. Weaker Governance Firms

Performance Indicator		Stronger Governance Firms	Weaker Governance Firms	Difference
Firm Value (Tobin's Q)		Higher by 18.9%	Baseline	+18.9%
Return on Equity (ROE)		Higher by 19.4%	Baseline	+19.4%
Return on Assets (ROA)		Higher by 16.7%	Baseline	+16.7%
Shareholder Value		Higher by 20.6%	Baseline	+20.6%
Market Capitalization Growth		Higher by 17.8%	Baseline	+17.8%

Hence, the companies with higher governance scores outperform their counterparts having lower governance scores with gain of 16.7% and 19.4% in the returns on assets (ROA) and returns on equity (ROE) respectively. The institutional why of the differences looks at the benefits arising from good governance procedures (sound governance), which can include improved access to provision of resources, better observation of management, and/or reduced agency costs (Wójcik 2011). Because the monitoring and control provisions have a relatively higher impact on improving efficiency in the use of equity capital, as seen in the high ROE spread relative to the ROA spread, it is likely that such provisions could influence several financial and investment decisions, such as more disciplined decision making.

The lowest differential was in the shareholder value, with the companies in the good governance group having a shareholder value 20.6% higher than the companies in the poor governance group. It converts insights from how much the shareholders created from their combined investment - whether from

capital gains or dividends - and appears to have the highest correlation with governance strength among all measures of performance (Natto & Mokoaleli-Mokoteli, 2025). The direct financial rewards that accrue to shareholders in companies with good governance are also indicated by the premium, illustrating the importance of governance for investment value-relevance.

Additionally, 17.8% growth was observed for the good governance companies' market capitalization as compared to that of the bad governance companies. This explains one of the factors driving the market value, namely good governance practices because of their better growth prospects, which can be observed by the increase in market capitalisation over time (Natto, 2024). Overall good scores in the five indicators verify their positive correlation with the foundations of strong governance which, in turn, provide empirical evidence that strengthens the positive relationship between strong governance and tangible economic benefits for the firms and their shareholder.

This comparative result confirms the result of previous panel regression analysis and structural equation modeling, namely board independence, audit quality and institutional ownership and governance compliance are all positive and significant factors in the firm value. By comparing these performances to one another, not only the decrease between the two groups, but also the relationships' economic importance on the statistical and practical (Rashid, 2008) level can be measured. This research's findings indicate to policymakers and corporate boards that they need to be better governed, and that this governance must form part of their efforts at improving firm value and the wealth of their shareholders. The results indicate that governance quality can prove to be a screening device for investors to find better performing firms (Montgomery, 2025).

The comparative analysis however, cannot prove causality, as the difference in governance that is observed could be attributed to the effect of other factors; these may be correlated to the two performance variables. However, the existence of patterns after running multiple analysis stages (panel regression, correlation analysis, and structural equation modeling) provides further confirmation of the causal factors of firm value, namely governance forms (Nguyen, 2015). Possible endogeneity, future research on similar themes could employ a quasi-experimental approach or instrumental variable method to beyond measurement from the effect of endogeneity (Ali, 2018).

Discussion

The empirical findings of this study would have implications of theoretical and practical nature in relation to understanding the effect of corporate governance on the value of a firm under different market conditions. This finding, in a theoretical perspective, reinforces the theory of agency greatly that it is believed that with the adoption of any good governance mechanism in a firm, the agency costs faced by the firm will display sound reduction therefore enhancing the firm to achieve better performance (Rashid & Islam, 2008). On assuming this, the overall positive correlation of board independence and audit quality, institutional ownership and firm value indicates that these are proper monitoring tools which establish alignment of management and shareholders' interests. Moreover, the strong direct and indirect relationships revealed by the Einsatz of structural equation modeling are the confirmation of a complex pattern of interactions between governance mechanisms which was not always clearly visible on the micro level. So, it might be more relevant than the sum of its parts to have a process of integration than the individual governance mechanisms (Wójcik, 2011). The results are both novel and troubling deviations from the theory of governance mechanisms considered in isolation and point towards a need for new theoretical models to take into consideration the synergistic effects of several governance attributes.

There are numerous ramifications around these findings for the investment, policy and business community. The aggregate results underscore the importance of having a higher proportion of independent directors on the board to explain firm value: having a more independent board in the aggregate board association was the strongest predictor of firm value, given the other factors examined here. Boards therefore need to hire and get a good mix of independent (skilled) board members with independent thought to effectively challenge management decisions (Claessens et al., 2002). For policy makers, the importance for firm value of the governance compliance hypothesis proposes that governances that require compliance with corporate governance codes can boost the level of trust in this market and contribute to sustainable value creation. If regulation bodies want to improve codes of governance in writing as well as practice, they should push for greater enforcement, and disclosure provisions to make sure firms comply (Natto & Mokoaleli-Mokoteli, 2025). The differences in performance between the highest and lowest governance rating companies, on average from up to 20.6% across a number of measures, provide a compelling argument to use governance as a screening and/or selection criterion in investments. Institutional investors in particular should be using their stake to press for action on governance issues as the results would suggest that ownership increases leads to firm value increases (Kijkasiwat et al., 2022).

The results of the study were positive and convincing, but there are certain limitations. First, while the sample is widened across industry and market context, it is relatively small in size (240 firms across 5 economies), which can reduce the validity of the results of the study in other institutional setting, such as those that have lower levels of legal protection and capital market development (Natto, 2024). Second, information that is provided is secondary and may suffer from measurement error because governance data collected through annual reports or financial databases may not have the same degree of representativeness for the actual level of governance quality/effectiveness between the governance processes conducted by boards (Rashid, 2008). Third, this study period spans the COVID-19 pandemic and its impact – which may generate short-term governance-induced shocks in governance performance that may deviate from the longer-term equilibria (Montgomery 2025). Last but not least, the two models—the panel regression and the SEM—can explain the observed firm characteristics, but bias due to endogeneity is still a possibility, as it is difficult to exclude the possibility that the better the governance practices, the higher the market value of the firm (Nguyen, 2015). Last, the governance structures discussed in this paper do not necessarily encompass the full spectrum of the corporate governance practices, for example, the quality of governance on the boards, level of board direction, etc., that impact on firm value (Ali, 2018).

These constraints suggest a few avenues of future research. Further time horizon research into governance changes and their impact on firm value, particularly in the emerging markets where governance is ongoing to undergo rapid change. In addition to the independence, future studies should emphasize "board interaction" and "board expertise," either by means of a qualitative case-study or a more variable questionnaire that can also reflect the detailed mechanisms of this interaction and expertise in making strategic decisions and/or improving company performance. Furthermore, it would be useful to have comparative empirical studies of a wider number of economies with different cultural and investor protection and legal origins to complement the endogenous perspective outlined above. Research should continue to attempt to account for other endogeneity problems to the extent that possible using quasi-experimental designs, such as in difference-in-differences or regression discontinuity methods, in order to obtain causal estimates of the effect of governance mechanisms on the value of the firm, as in this article. Little research has been done on the interaction between several governance mechanisms, women and board diversity, or the impact of environmental, social and governance (ESG) on the old governance-performance link. The gaps identified in future research

studies could help to address these issues other than that some research items can draw out a more profound understanding of the value creation of the mechanisms of corporate governance in the complex worldwide business environment prevailing in the present scenario.

Conclusion

The study aimed to investigate the relationship between the Corporate Governance Mechanisms and the firm value among the emerging and developed markets public listed firms to which would be tested a total sample of 1200 firm-year observations using the Comparative Quantitative Method. The central findings suggest that the board level of independence, audit quality, institutions properties of the institutions and governance compliance are significant positive predictors of the value of the firm and the model explains 72.8% of the variance in the Tobin's Q. The results confirm, at an overall empirical level, the validity of the agency theory: if effective Agency arrangements are implemented, in these markets, Agency costs go down and the market's valuation increases. The results from the structural equation modeling showed that these governance attributes work not only directly but also indirectly effectually through a latent governance quality construct which adds more detail to the view on how these governance mechanisms operate collectively on firm performances. The paper contributes to the corpus of corporate governance literature in several ways, all of which are significant for theoretical and practical implications for the study: It provides empirical evidence of a positive relationship between corporate governance and firm performance in different markets, It shows that such relationship exists in developed as well as the developing economies and It shows relative economic importance between the two sides of the relationship between corporate governance and firm performance with observed difference from 18.9% to 20.6% in two different markets.

The implication of the current research is that the research type should be conducted in the near future to get the causal measurement of governance mechanisms and its impact on the firm value to overcome the problems of endogeneity raised in the previous observation study through quasi experimental design. Longitudinal studies of governance change over an extended period of time do, however, exist. And there's a need for them, particularly in emerging markets, where governance is evolving so quickly.

References

- Ali, M. (2018). Impact of corporate governance on firm's financial performance (a comparative study of developed and non-developed markets). *Economic Research*.
- Claessens, S., Klingebiel, D., et al. (2002). The future of stock exchanges in emerging economies: Evolution and prospects. *Brookings-Wharton Papers on Financial Services*.
- Kijkasiwat, P., Hussain, A., & Mumtaz, A. (2022). Corporate governance, firm performance and financial leverage across developed and emerging economies. *Risks*.
- Montgomery, C. (2025). Board diversity, corporate governance quality, and firm financial performance: A comparative analysis of emerging and developed markets. *International and Comparative Corporate Law Journal*.
- Natto, D. (2024). *Effect of corporate governance and institutional quality on firm performance and economic growth in emerging and developed markets: A comparative analysis*. search.proquest.com.

Natto, D., & Mokoaleli-Mokoteli, T. (2025). Short-and long-term impact of governance on firm performance in emerging and developed economies: A comparative analysis. *SSRN Electronic Journal*.

Nguyen, T. (2015). *Corporate governance structures and financial performance: A comparative study of publicly listed companies in singapore and vietnam*. researchcommons.waikato.ac.nz.

Rashid, K. (2008). *A comparison of corporate governance and firm performance in developing (malaysia) and developed (australia) financial markets*. vuir.vu.edu.au.

Rashid, K., & Islam, S. (2008). *Corporate governance and firm value: Econometric modelling and analysis of emerging and developed financial markets*. books.google.com.

Wójcik, D. (2011). *The global stock market: Issuers, investors, and intermediaries in an uneven world*. books.google.com.