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Natto, Dinah Milembe

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University of the Witwatersrand, Johannesburg

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Effect of Corporate Governance and Institutional Quality on Firm Performance and Economic Growth in Emerging and Developed Markets: A comparative analysis

DINAH MILEMBE NATTO- (849265)

Supervisor:
Professor Thabang Mokoaleli-Mokoteli

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ABSTRACT

Purpose of the study

The objective of the current study is to investigate the effects of corporate governance and institutional quality on firm performance and economic growth in emerging and developed markets. These sample countries were selected based on their significant role in their respective economic blocs and based on their unique economic and firm characteristic

Research design

The impact of corporate governance and institutional quality on firm performance was rigorously evaluated using the Generalized Method of Moments (GMM), while controlling for key variables such as economic growth and other relevant factors.

Major findings

The study found that corporate governance compliance levels have improved significantly in emerging economies over the study period, with South Africa leading the sample countries. In addition, corporate governance has a significant positive correlation with all firm performance measures in all sample countries. Furthermore, corporate governance has a long-term relationship with ROE and Tobin's Q in emerging market countries and not in developed countries. However, weak institutions reverse the benefits of a robust corporate governance framework, especially in emerging economies where institutional quality was found to be low. Lastly, the study revealed that over the study period, corporate governance was only found to have a long-term relationship with Tobin's Qin India.

Practical implications

Policymakers in emerging and developed markets, the research provides insights into which aspects of corporate governance and institutional quality are most effective in promoting firm performance and economic growth. This can guide the design and implementation of regulations and reforms. Investors can use the findings to assess the risk and potential returns in different markets based on the strength of corporate governance and institutional frameworks. Strong governance and institutions may indicate lower risk and higher stability.

Social implication

Improved firm performance driven by good governance and strong institutions may lead to better wages and working conditions for employees, reducing income inequality and contributing to social stability.

Originality

While studies on corporate governance, institutional quality, and their impacts on firm performance and economic growth exist, the originality lies in the comparative analysis between emerging and developed markets. Furthermore, the research integrates the analysis of corporate governance and institutional quality, rather than examining them in isolation.

Keywords: Corporate governance, Institutional quality, Firm performance, Economic growth, Emerging Markets, Developed Markets

DEDICATION

This PhD is dedicated to my beloved mother, whose unwavering love, guidance, and strength have been the foundation of my academic journey. Although you are no longer with me, your spirit continues to inspire and drive me forward. This achievement is as much yours as it is mine. I dedicate this PhD to your memory, with all my love and gratitude. May your soul rest in eternal peace!

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I am also grateful to Professor Kodongo Odongo and his family, who graciously introduced me to Wits Business School. I am forever grateful for supporting me when I stayed in South Africa; indeed, you are precious. God bless you and your family. I will not forget my host mother, Lydia Puni, in Protea Glen Soweto. I thank you for hosting me and making me one of your daughters. Remain blessed. Lastly, I thank my mother, Sisters Betty, Naomi, Esther, and Martha, my Brothers Enoch and Jonah, and my darling daughter Shammah Birah. Without you, this journey would have been more arduous than it has been. Special thanks go to those who kept asking whether I had finished this thesis, by continually asking, you motivated me to finish! Thank You.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

Extant literature (e.g., Jensen and Murphy, 1990; La Porta et al., 2002) shows that the corporate governance and institutional quality systems enhance corporate valuation. The firm-level mechanisms that are often put in place include independent and watchful boards, separation of the control and decision-making roles, and alignment of management incentives with owners' goals while institutional quality systems include legal protection of providers of funds and minority shareholders (Essen et al., 2013; Lien, 2022). The current research examined how firm governance and institutional quality systems affect firm performance and economic growth in a sample of emerging and developed economies.

This chapter is organized as follows: Section 1.2 presents the background of the study. Section 1.3 discusses the justification of the study. Section 1.4 expounds on the motivation and problems of the study, Section 1.5 presents the research objectives, while Section 1.6 covers the research questions. Section 1.7 discusses the significance of the study, while Section 1.8 outlines the structure of the thesis, followed by the chapter summary, which concludes the chapter.

1.2 Context of the Study

Corporate governance is a multifaceted concept that refers to the system of structures, processes, and principles that guide and control organizations, ensuring transparency, accountability, and ethical behavior in their operations (Adams & Ferreira, 2009). However, defining corporate governance proves to be a contentious matter among scholars and practitioners alike (Aguilera & Cuervo-Cazurra, 2009). There exists no singular, universally accepted definition due to the diverse perspectives stemming from various disciplines such as economics, law, management, and sociology (Tricker, 2015). Garvey and Swan (1994) state that corporate governance determines how the firm's top decision-makers (executives) administer such contracts. Shleifer and Vishny (1997) define corporate governance as how suppliers of finance to corporations assure themselves of getting a return on their investment.

OECD (1999) defined corporate governance as the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders, and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. Oman (2001) defined corporate governance as laws, regulations, and business practices that govern the relationship between corporate managers and stakeholders. La Porta, Silanes and Shleifer (2000, 2002) view corporate governance as a set of mechanisms through which outside investors (shareholders) protect themselves from inside investors (managers). Zingales (1998) conceptualized corporate governance as the set of constraints that shape the ex-post bargaining over the quasi-rents generated throughout the relationship. The preceding definitions of corporate governance are mainly from economists.

Legal experts have a different perspective on what corporate governance is. For example, Blair (1995) defines corporate governance as the whole set of legal, cultural, and institutional arrangements that determine what publicly traded corporations can do, who controls them, how control is exercised, and how the risk and returns from the activities they undertake are allocated. Organizational psychologists such as Davis (2005) state that corporate governance refers to the structures, processes, and institutions within and around organizations that allocate power and resource control among participants while political scientists such as Gourevitch and Shinn (2005) identify corporate governance as the system that not only promotes growth and protects investors but also generates employment and fosters equality of opportunities. Aguilera and Jackson (2003) took a multidisciplinary view and defined corporate governance as the rights and responsibilities of various stakeholders toward the firm. The differences in regulatory environments, cultural contexts, and stakeholder expectations further contribute to the ambiguity surrounding the precise delineation of corporate governance (Aguilera & Cuervo-Cazurra, 2009).

While there is no universally accepted definition of corporate governance, scholars and practitioners agree on its core principles and objectives. Corporate governance consists of the principles that regulate businesses' process applications and mobility in the market and that propose to approach the internal and external environmental components with the same importance, attitude, and procedure (Burak et al., 2017). The key principles often cited in the literature include accountability, transparency, fairness, and responsibility (e.g., Tricker, 2012).

The OECD Principles of Corporate Governance (2015) outline a comprehensive framework for good corporate governance, covering areas such as shareholder rights, board responsibilities, and disclosure and transparency (e.g., Siems & Alvarez-Macotela, 2017). The primary objective of corporate governance is to enhance corporate performance and shareholder value (Shleifer & Vishny, 1997). Thomsen (2004) defined corporate value as the weight that corporate decision-makers attach to alternative goals when making their decisions. Alternative goals could be accounting profitability, stock returns, customer value, market share, company growth, employee satisfaction, supplier surplus, or measures of corporate social performance. Thomsen, (2004) further indicates that these firm value measures could be present or future values to capture a trade-off between the short and the long term (Fama & Jensen, 1985). Firm value can also be measured based on the cost of replacing the company's assets and replicating its operations, and in this case, Tobin Q is often used as a measure of value. The previous studies have used different measures of value (e.g., economic value added (EVA), market value added, market to book value) depending on the context and purpose of the valuation. Similar to the definition of corporate governance, several definitions, and approaches to measuring firm value exist in the literature. The other commonly cited objective of corporate governance practices is to mitigate agency conflicts between shareholders and management, promote investor confidence, and contribute to the long-term sustainability of the company (Aguilera & Jackson, 2003). The role of corporate governance in mitigating agency problems is discussed further in the theoretical framework section.

The different definitions of corporate governance and firm value in different countries may result in some inconsistencies, and in some cases, the interpretation of research findings may vary depending on the definitions used, which may lead to potential misinterpretation or oversimplification of complex governance mechanisms (Shleifer & Vishny, 1997). Contextual factors, such as industry dynamics, regulatory environments, and cultural differences, may influence the applicability and relevance of different definitions in different settings (Aguilera & Jackson, 2003).

The value derived from corporate governance extends across various business functions, including product development and marketing, organizational performance, and finance. Through the promotion of transparency, accountability, and ethical conduct, effective corporate governance practices play a significant role in the creation of high-value products,

successful marketing strategies, and the sustained growth of businesses (Smith, 2020). In the context of product development, robust corporate governance fosters innovation and risk management, thereby facilitating the creation of high-value products. Du and Sun (2018) suggest that well-governed firms are more likely to invest in research and development activities, leading to the introduction of innovative and competitive offerings. This alignment with consumer preferences and market demands results in high-quality products that resonate with the target audience, contributing to sustained competitive advantage and enhanced customer satisfaction (Du et al., 2018).

Furthermore, effective corporate governance also exerts influence on marketing endeavors. By ensuring transparency and ethical behavior, corporate governance plays a crucial role in nurturing consumer trust and enhancing the reputation of the brand. For instance, Kimet al., (2020) support the idea that organizations with strong governance structures are better positioned to establish enduring relationships with consumers, leveraging their governance practices as a valuable marketing asset. Moreover, the alignment of corporate values and ethical standards strengthens marketing messages, thereby enhancing brand credibility and fostering customer loyalty (Kim et al., 2020).

Corporate governance also plays a pivotal role in providing firms with access to vital resources like finance. By establishing transparency, accountability, and ethical conduct, robust corporate governance practices enhance a firm's reputation, reduce information asymmetry, and build investor confidence, thus facilitating better access to finance (Melnic & Juravle, 2020; Noos, 2010). In addition, Chava and Purnanandam (2010) highlight that strong governance mechanisms, such as independent boards and effective monitoring, contribute to reduced agency conflicts, which, in turn, positively influence a firm's ability to secure external financing. Claessens et al., (2000) emphasized the effect of corporate governance on the cost of capital, suggesting that better governance practices lower the cost of external capital, making it more accessible to firms. Furthermore, the relationship between corporate governance and access to finance is underlined in studies including Martínez et al., (2019) which emphasize the role of corporate governance in enhancing a firm's credit ratings, thereby making it more attractive to potential lenders and investors. This underscores how well-governed firms are better positioned to obtain financing at favorable terms due to the reduced perception of risk associated with their operations. Based on the efficiency rationale, firm-level benefits such as improved top-level decision-making processes, reduced cost of

capital, and the possibility that better-governed companies can create more shareholder value through better operational results may explain why companies adopt the code of corporate governance even in environments where they are not mandatory (OECD, 2009; Chang, 2023). Interestingly, corporate governance codes are becoming pervasive in all countries, with developed nations often regarded as pioneers in ensuring corporate governance effectiveness. However, in both developed and developing countries, there are instances of corporate failures that indicate lapses in corporate governance. This raises the question of whether companies truly adhere to their country's corporate governance codes.

Corporate governance plays a crucial role in shaping economic growth as well. This is done through fostering investor confidence, enhancing capital allocation efficiency, and ensuring accountability within corporations. La Porta et al., (2000) and Klapper and Love (2004) argued that well-functioning corporate governance mechanisms positively affect economic development by reducing agency costs and improving firm performance. Effective corporate governance practices such as transparent disclosure requirements and strong shareholder rights tend to attract more investment by mitigating information asymmetry between managers and shareholders (La Porta et al., 2000). This increased investor confidence encourages capital inflows, which, in turn, can stimulate economic growth and development (Klapper & Love, 2004).

The strong corporate governance frameworks that protect shareholder rights can improve firms' access to capital by providing investors assurance on how their funds will be utilized (Jones & Smith, 2020). Increased access to capital allows firms to pursue more investment opportunities that fuel economic activity and growth. Moreover, corporate governance mechanisms like transparency, accountability, and board effectiveness promote the efficient allocation of resources within firms (Brown, 2021). When firms operate under robust corporate governance frameworks that prioritize accountability and prudent decision-making, they are more likely to make investments that yield higher returns and contribute positively to economic growth (La Porta et al., 2000). This enhances capital investment decisions, improving productivity and the rate of return on investment economy wide. In addition, corporate governance structures that uphold the rule of law, and ethics and minimize agency risks make firms attractive partners for collaboration and knowledge-sharing (Garcia et al., 2019). This fosters competitiveness, innovation, and adoption of modern technologies on a national scale, strengthening long-term growth drivers.

At the macro level, strong disclosure and transparency norms engrained in good corporate governance contain information asymmetries and prevent crises of confidence (Lee & Patel, 2018). This contributes to macroeconomic and financial system stability, generating a stable platform for sustained economic expansion. Conversely, weak, or inadequate corporate governance practices might lead to inefficiencies, misallocation of resources, and reduced investor confidence, potentially impeding economic growth (Aguilera & Cuervo-Cazurra, 2009). Consequently, by improving capital availability, resource efficiency, competitiveness, and overall stability, robust corporate governance frameworks play a key role in facilitating higher investment, productivity, and innovation across an economy. This positions countries for stronger, long-term economic growth.

The current study compares the effect of corporate governance and institutional quality factors on firm value in emerging and developed economies. These two economies exhibit substantial differences in economic development, institutional quality, and corporate governance practices, all of which have profound implications for firm performance and overall economic growth. These disparities stem from variations in legal systems, ownership structures, cultural factors, access to capital, and economic stability, shaping the effectiveness of corporate governance mechanisms.

In developed economies, the presence of well-established legal systems and strong institutional frameworks provides fertile ground for transparency, accountability, and investor protection (La Porta et al., 1999). These countries boast robust regulations, enforcement mechanisms, and regulatory bodies that ensure the rule of law and minimize corruption risk. Conversely, emerging economies often face challenges in developing and implementing strong legal frameworks, resulting in weaker investor protection and less effective corporate governance practices (Claessens et al., 2000).

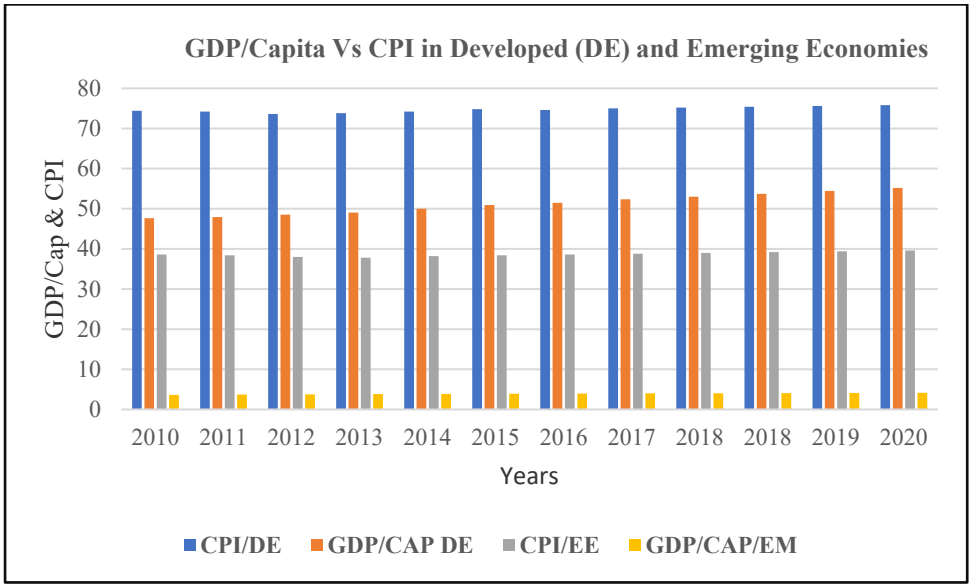
Ownership structures in developed economies tend to be characterized by dispersed ownership and a more mature capital market, enabling greater shareholder activism and management monitoring (La Porta et al., 1999). In these economies, shareholders are often more sophisticated, with access to comprehensive information and higher levels of investor education. In contrast, emerging economies frequently exhibit family ownership, state ownership, or concentrated ownership, leading to less effective management monitoring and weaker corporate governance practices (Claessens et al., 2000).

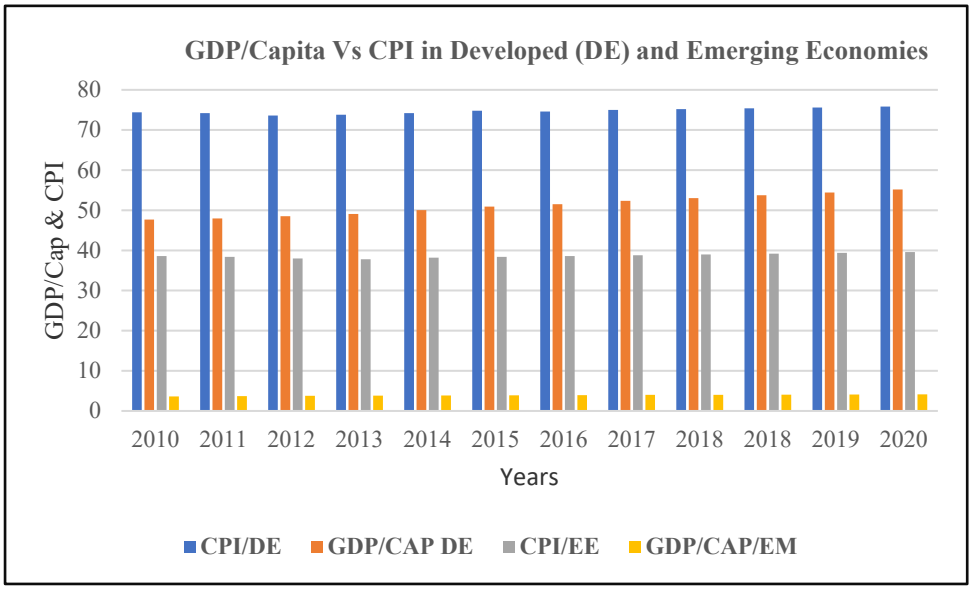
Cultural norms and institutions also exert considerable influence, with emerging economies displaying distinct attitudes toward corporate governance (Shleifer & Vishny, 1997). Informal networks, family ties, and personal relationships can play a substantial role in decision-making, potentially leading to conflicts of interest. Developed economies, on the other hand, place greater emphasis on formal institutions and professional norms, resulting in increased transparency and accountability.

Access to capital varies significantly between the two types of economies, with developed economies often enjoying more liquid and efficient capital markets (Levine, 2002). This facilitates easier access to financing for companies, enabling well-governed firms to raise capital more easily and at lower costs, contributing to better firm performance and economic growth. In contrast, emerging economies may grapple with limited access to capital, higher borrowing costs, and less developed financial markets, which can constrain firm growth and hinder economic development (Claessens et al., 2000).

Economic stability in developed economies provides a conducive environment for business growth, offering predictability in economic conditions and reduced macroeconomic risks (La Porta et al., 2002). This stability positively influences corporate governance practices, fostering long-term planning and investment, thus supporting improved firm performance and overall economic growth. Emerging economies, however, may experience greater economic volatility, creating challenges for firms and impeding long-term planning. Figure 1 shows that developed countries have a high corruption perception index (CPI) of 74%, with a corresponding high GDP/capita of USD 47000. On the contrary, the emerging economies had an average CPI of 38% that was accompanied by an average GDP per Capita of USD 4000.

Figure 1 Difference in economic performance between developed and emerging economies





Source: World Bank Development Indicators (2010-2020)

South Africa, India, The USA, and the UK provide a useful setting for this research for various reasons. One, the USA, and to some extent the UK were the early- adopters of corporate governance. In 2003, nearly 30% of U.S. industrial firms were required to substantially change boardroom practices to comply with the new governance criteria included in the revised NYSE and NASDAQ listing standards (Aggarwal et al., 2019). Two, around the same time, the new South African government adopted a good corporate governance system to instill confidence in domestic and foreign investors and facilitate the acceptance of South Africa into the global economy. In addition, this would prepare for the entry of business leaders from previously disadvantaged communities (Rossouw et al., 2002).

Three, these countries have gone through corporate governance reforms, the efficacy of their new codes of corporate governance needs to be tested and four, these countries have all adopted their respective governance codes, but corporate governance is defined and implemented will differ depending on the country's economic, political, and social and technological environment. These differences provide an opportunity to investigate how they affect firm value and how the effect is different between and among the developed and emerging markets.

Empirical evidence (e.g., Abdoush, 2017; Ali, 2018; Arora and Bodhanwala, 2018; Tshipa and Mokoaleli-Mokoteli, 2015) indicates that well-governed firms tend to exhibit improved financial performance, reduced risk levels, and higher market valuations. Conversely, poor governance has been linked to financial irregularities, mismanagement, and inferior performance (Hanse, 2006). However, it is increasingly recognized that corporate governance is not in isolation but is embedded within a broader institutional framework. Institutional quality includes various elements such as the rule of law, protection of property rights, contract enforcement, and the effectiveness of regulatory frameworks (World Bank, 2021). Strong institutions provide a supportive environment for effective governance mechanisms, ensuring their proper implementation and impact.

Hence, the interaction between corporate governance and institutional quality is crucial for further exploration (Claessens et al., 2020). Prior studies (Nguyen et al., 2021; Rahaman and Otchere, 2021) have examined this relationship from various perspectives, focusing on specific governance practices' effect under different institutional settings and how disparities in institutional quality across countries affect the relevance and effectiveness of governance mechanisms. Furthermore, a growing body of literature investigates how institutional quality influences the relationship between governance and performance (Filatotchev et al., 2021).

Only listed firms were included in the sample because of data availability. In addition, these companies play a pivotal role in most economies. They make substantial contributions to the overall GDP of a country through their economic activities, including production, employment generation, and value creation in financial markets. They also contribute by generating value-added which represents the net output of a firm, calculated as the difference between its revenues and intermediate costs (Subramanian, 2019). These firms often operate in key sectors of the economy such as manufacturing, technology, finance, and services,

playing a critical role in driving economic growth and productivity. According to the World Bank, there has been a substantial increase in the market capitalization of listed domestic companies relative to GDP in various countries, underscoring the growing significance of listed firms in national economies (World Bank, 2021). The unlisted firms were not included nor controlled for in this research because it was not possible to obtain their data from the four countries included in the sample.

Institutional quality affects the behavior, decision-making, and performance of firms by providing an environment that encourages or constrains entrepreneurship (Olawale & Obinna, 2023). High-quality institutions establish clear and enforceable rules, protect property rights, enforce contracts, and promote equal opportunities for businesses, which increases trust in the business environment (Amaechi et al., 2019, Daily et al., 2003). Firm performance is influenced by many factors, including internal capabilities, external market conditions, industry dynamics, and the quality of management and institutions in which the firm operates (Olawale & Obinna, 2023). Prior studies show that institutional quality significantly affects firm survival (Baumöhl et al., 2019). Boubakri et al., (2015) find that firms from countries with strong political institutions experienced higher growth rates, while Yasar et al., (2011) show that the quality of property rights institutions affects firm competitiveness and performance. Furthermore, North (1994) suggests that institutional quality is the incentive structure of society, and provides the basis for economic performance.

This study sought to provide a comprehensive analysis of the intricate relationships among corporate governance, institutional quality, firm performance, and economic growth. By integrating existing empirical research, theoretical frameworks, and conceptual insights, the study intends to deepen the comprehension of the complex dynamics between these factors. The study explored the moderating effects of institutional quality on the relationship between governance practices and firm performance. Its findings will have significant implications for policymakers, corporate boards, investors, and other stakeholders.

1.3 Research Problem

The persistent corporate failure scandals even in countries with corporate governance codes that are touted as the best have left policymakers and researchers in corporate governance wondering why governance systems do not appear to be effective. Many big companies that have failed in the recent past including Enron, WorldCom, Tyco, Arthur Anderson, and

Steinhoff flouted internal corporate governance mechanisms and destroyed shareholder value which in turn, negatively affected investors' trust and led to economic stagnation (Vasilescu, 2008). What is even more concerning is the fact that, in some countries, such as the USA and South Africa, all listed companies must comply with several governance requirements. With such strict oversight from credible bodies such as the New York Stock Exchange and the Security Exchange Commission, it could safely be assumed that violation of corporate governance by firms would be difficult if not impossible. Despite the strict oversight, there is still governance failure in areas like remuneration governance systems due to a lack of independence in the negotiation process, and obscurities surrounding the performance-based remuneration systems. In addition, there is a widespread failure in managing risk at both corporate and strategic levels for both financial and non-financial corporations. The OECD found that the board practices of the collapsed corporations are inadequate as far as board performance is concerned (OECD, 2009). The corporate failure, as well as the financial and economic crisis experienced in 2008, are evidence that poor governance can have devastating effects both on the firm and the economy. More research is required to assess further the level of compliance with corporate governance mechanisms in emerging and developed markets and whether this compliance benefits companies through improved firm performance.

Various countries have adopted corporate governance codes, but their interpretation, significance, and implementation vary due to the influence of their economic, political, and social landscapes. The lack of a universally agreed-upon definition of corporate governance is evident in the literature, where economists such as La Porta, Silanes, and Shleifer (2000, 2002), legal experts like Blair (1995), organizational psychologists such as Davis (2005), and political scientists like Gourevitch and Shinn (2005) each offer distinct perspectives. These disparities present an opportunity to explore how the divergence in definitions affects the correlation between a country's corporate governance practices and firm performance.

Despite the positive views about corporate governance mechanisms, the International Monetary Fund (IMF) shows a declining trend of economic growth in both emerging and developed markets economies in the past decade (IMF, 2020); a decade where countries put enormous resources into corporate governance through the implementation of the G20/OECD corporate governance codes (OECD, 2015). For instance, South Africa's growth rate has declined since the country was declared 'emerging' in 2010, while China's growth rate over the past ten years declined from 10.6% in 2010 to 6.1% in 2019. This same scenario is seen

in India, where the growth rate dropped from 10.6% in 2010 to 4.5% in 2019. Developed markets have not had a different scenario either. For instance, the growth rates of the United States of America and the United Kingdom have stagnated at an average of 2% over the last decade (IMF, 2020). This scenario seems to indicate that there is a disconnection between economic growth and corporate governance systems in both emerging and developed economies. The disconnection between the level of corporate governance and economic growth warrants further investigation so that the study can assess how corporate governance is linked to economic growth. For this reason, more research is required to understand the nexus between corporate governance, economic growth, and firm performance.

Škare and Hasic (2016) suggested that better-governed firms could contribute more to economic development because of their stability and sustainability. Such firms provide consistent profits to the owners, regular incomes to their employees, and enhance investors' trust in capitalist economies. For this reason, corporate governance plays a vital role in economic development because of its indirect impact on institutional development (OECD, 2015; Claessens & Yurtoglu, 2013). Developed and emerging economies have different economic, social, political, and technological environments that affect the adoption and implementation of corporate governance systems. Furthermore, developed markets have stable political and economic environments that promote good governance, while emerging markets are characterized by weak and unstable political and economic environments (Core et al., 2006; Vasilescu, 2008). Despite the predominant benefits of good governance systems at both country and firm levels, the relationship between governance, economic growth, and firm performance has not been compared between emerging and developed countries.

The extant literature confirms the positive relationship between internal corporate governance and economic growth. It is argued that corporate governance contributes to economic growth and development in the long run due to its positive impact on financial market confidence, the integrity of financial markets, and the efficiency of economic systems. However, half a century after companies implemented corporate governance systems, most emerging economies still experience low economic growth and are ranked by the World Bank as less developed. According to the World Bank development ranking for 2020, only 36.6% out of 218 countries were ranked as high-income economies, with none belonging to Africa, where corporations have implemented corporate governance systems for over two decades. This scenario warrants further investigation into the relationship between economic growth and

corporate governance by specifically comparing emerging and developed markets, as these markets have different characteristics that may influence the real impact of governance mechanisms on firm performance and economic growth. For example, emerging economies are characterized by high market volatility resulting from political unrest (CIF, 2020). Emerging economies are viewed as having high investment potential, in addition, to being seen as growing faster than other developing markets (Bruner et al., 2002). It is still not clear whether internal corporate governance yields similar benefits in both emerging and developed markets.

Existing literature (Abdoush, 2017; APRM, 2022; Khan et al., 2020; Mishra and Mohanty, 2014; Morekwa and Nyamongo, 2013; Nagalingam et al., 2022; Nasrallah and El Khoury, 2022; Tshipa and Mokoaleli-Mokoteli, 2015) emphasize the importance of internal corporate governance and shows that the benefits that accrue from having an effective corporate governance system include improvement in confidence in local investors and, low cost of capital, efficient use of resources by firms, and thus promote growth at firm and economy levels. Krafft et al., 2013 and Mishra and Mohanty (2014) add that good corporate governance is important for the functioning of financial markets, and the promotion of economic growth. This is because good governance encompasses improved monitoring, better transparency, principal (owner), and agent (management) public disclosure. This results in improved investor trust and a reduction in management preferences steal rents.

Despite all the benefits accruing from improved firm-level governance, the role of institutional quality and its relationship with internal governance is rarely discussed. The performance of a firm with the best internal corporate governance may be negatively affected in an environment that has poor institutional quality. This scenario could affect the economy in the long run. Thus, the quality of institutions plays a crucial role in shaping a nation's long-term development prospects, encompassing various proxy variables related to legal, economic, and political dimensions (Chang, 2023). Wallis and North (1986) emphasize that institutions serve the purpose of diminishing transaction costs and enhancing transactional efficiency, constituting a pivotal factor influencing economic performance. According to North (1990), favorable institutional quality has the potential to increase transactions and decrease associated costs, while Ngendakuriyo (2013) contends that governments play a vital role in minimizing transaction costs. This involves activities such as formulating laws and regulations, developing transportation infrastructure, facilitating education opportunities, and

more. Consequently, sound institutional quality contributes to improved corporate performance by mitigating transaction costs (Chang, 2023).

Despite the acknowledged importance of corporate governance and institutional quality in shaping firm performance and fostering economic growth, there exists a gap in the understanding of the nuanced and comparative relationship between these factors in both emerging and developed markets. This research sought to address the pressing question of how variations in corporate governance practices and institutional quality affect firms differently across diverse market contexts, providing insights that can guide policy interventions and strategic decisions for sustainable economic development.

1.4 Research Objectives

The research goal of this study is to assess the effect of corporate governance and institutional quality on firm performance and economic growth. The specific objectives of this study are:

- To compute an internal corporate governance score from countries' governance codes for companies listed in emerging and developed markets and evaluate the extent to which companies comply with their respective corporate governance best practices.
- To examine the nature of relationship between the internal corporate governance compliance score and firm performance in emerging (India and South Africa) and developed (USA and the UK) economies
- To assess whether the quality of institutional frameworks affect firm performance in emerging (India and South Africa) and developed (USA and the UK) economies.
- To assess whether country’s institutional quality affects the relationship between corporate governance and firm performance in emerging (India and South Africa) and developed (USA and the UK) economies
- To examine the nature of relationship between the internal corporate governance compliance score and economic growth in emerging (India and South Africa) and developed (USA and the UK) economies
- To examine whether the quality of institutional frameworks affects economic growth in emerging (India and South Africa) and developed (USA and the UK) economies

- To assess whether country's institutional quality affects the relationship between corporate governance and economic growth in emerging (India and South Africa) and developed (USA and the UK) economies.

1.5 Research Questions

Based on the above research objectives, below are the research questions:

- How do companies listed in emerging and developed markets vary in their adherence to corporate governance best practices as defined by their respective countries' governance codes?
- What nature of relationship exists between corporate governance compliance scores and firm performance in both short and long terms across developed and emerging markets?
- Does institutional quality framework affect firm performance in emerging (India and South Africa) and developed (USA and the UK) economies
- Does institutional quality frameworks affect the relationship between corporate governance and firm performance in developed and emerging markets?
- What nature of relationship exists between corporate governance compliance scores and economic growth in both short and long terms across developed and emerging markets?
- Does institutional quality frameworks affect economic growth in emerging (India and South Africa) and developed (USA and the UK) economies
- Do institutional quality frameworks affect the relationship between corporate governance and economic growth in emerging (India and South Africa) and developed (USA and the UK) economies?

1.6 Contribution of the Study to Body of Knowledge

1.6.1 Theoretical Contribution

Corporate governance addresses the agency problems that arise in a firm because of the conflicts of interest between the principals (owners) and agents (managers) who run the firms on behalf of the owners. If both agents and principals seek to maximize utility, it is expected that the agent's actions will not be in the best interest of the principal, but rather their own.

Such actions lead to a divergence of interest between owners (principals) and non-owner managers (agents) (Agrawal & Knoeber, 1996; Donadelli et al., 2014). Overall, the agents may siphon perquisites from the firm, while they are not keen on pursuing profitable investments due to risk avoidance (Chng et al., 2012). To mitigate principal-agency conflicts, the principal must incur agency costs such as monitoring costs, budgeting, and budgetary control, bonding expenses, setup of compensation structures, and be ready to bear residual losses arising from divergent interests of the agent (Kyereboah-Coleman 2007). Agency costs lower firm value and therefore must remain low if owners are to maximize shareholder wealth (Jensen & Meckling, 1976).

The study emphasizes the classical agency problem, where the interests of the owners (principals) and managers (agents) may diverge. By analyzing both emerging and developed markets, it highlights how different governance structures can mitigate or exacerbate agency issues, thereby providing a comparative perspective on agency theory's applicability in varied economic environments. Additionally, the research incorporates the role of institutional quality, suggesting that stronger institutions can reduce agency costs by enforcing better governance practices. This addition extends agency theory beyond the traditional corporate governance framework, integrating it with institutional economics to assess how external factors influence the principal-agent dynamic.

The proponents of the information asymmetry theory argue that in any given relationship, it is impossible to have complete information about the other party's intentions, and this is a common scenario in different spheres of economics and business administration (Majić et al., 2015). Majić, Pongrac, and Richter (2015) posited that information asymmetry explains the idea that one party is more informed about the details of a given transaction than the other party. Therefore, information asymmetry exacerbates the agency problem. In the context of agency theory, agents (managers) have more information (some of which are private) about the firm than its shareholders, who are the principals (Healey & Palepu, 2001). However, Elbadry et al., (2015) posited that the agency problems arising from information asymmetry can be reduced by using corporate governance mechanisms such as having compensation contracts that are linked to the stock prices thereby reducing shirking and consumption of perquisites. The general consequence of information asymmetry theory is that shareholder well-being is improved in markets that are perfectly competitive and liquid due to information disclosure (Diamond, 1985; Elbadry et al., 2015). Our study offers additional

evidence for emerging and developed economies regarding the role of corporate governance in mitigating the problem of information asymmetry.

The effectiveness of internal corporate governance may be dependent on institutional quality. Institutional quality upholds the view that governance systems or structures are entrenched in larger legal frameworks of institutions (Aguilera & Jackson 2003, 2010). Therefore, the legitimization process of internal governance systems may depend on the institutional environment of the firm's operations (Chung andLuo, 2008) particularly, the degree of protection offered to minority shareholders (Bruton et al., 2010). Scholars such as Aguilera et al., (2008), Misangyi and Acharya (2014), and Claessens (2007) recognized that firm-level corporate governance ought to be explored in concomitance with institutional aspects like laws and regulations. By incorporating the institutional theory in this research, the study offers additional evidence regarding the role of the institutional environment in enhancing the relationship between corporate governance firm performance, and economic growth.

1.6.2 Methodological contribution

This study presents several contributions and expansions to existing corporate governance literature. Firstly, the study on the effect of corporate governance, and institutional quality on firm performance and economic growth in emerging and developed markets adopted a comprehensive research framework encompassing a positivist philosophy, a realist ontological assumption, a quantitative research approach, and an exploratory research design. This approach is designed to contribute significantly to the body of knowledge in the field by providing a rigorous empirical understanding, grounding the study in observable phenomena, facilitating precise measurements, and encouraging the exploration of uncharted territories.

Secondly, positivism, as a philosophical foundation, aligns seamlessly with the utilization of quantitative methods to investigate the effect of corporate and institutional quality on firm performance and economic growth governance systematically and objectively. By employing a quantitative research approach, the study furnishes credible empirical insights that deepen the understanding of the nexus between corporate governance mechanisms, firm performance metrics, and economic growth indicators (Hussey & Hussey, 1997). This empirical rigor ensures that the study's findings are based on tangible evidence, contributing to the establishment of reliable patterns and correlations.

The utilization of diverse data types yields substantial contributions to the existing knowledge base. By incorporating financial data, governance metrics, and macroeconomic indicators, the research offers a comprehensive grasp of the intricate interplay among corporate governance, institutional quality, firm performance, and economic growth. This multi-dimensional approach enriches the analysis by providing a more nuanced understanding of these interconnected elements (Marcoulides & Hershberger, 1997). Furthermore, it facilitates contextual comparisons between emerging and developed markets, allowing for the identification of distinct effects of corporate governance and institutional quality on firm performance and economic growth across varied economic landscapes. Such insights advance comprehension of the contextual dynamics influencing these relationships, thereby enhancing scholarly understanding in this domain (Ragin, 2008).

Another source of contribution to the body of knowledge relates to the use of a country-specific internal corporate governance compliance score to measure corporate governance compliance in the sampled countries. Unlike preceding studies (e.g., Ntim, 2009; Gompers et al., 2003; Haniffa and Hudaib, 2006; Abdoush et al., 2016; Al-Malkawi et al., 2014; Asgari, 2015; Berglund, 2020; Black et al., 2017 among others), the development of a country-specific corporate governance compliance score contributes significantly to the body of knowledge in several ways. This is because tailoring the corporate governance compliance score to the context of each country allows for a more nuanced understanding of corporate governance practices within specific institutional and regulatory frameworks. This contributes to the body of knowledge by providing country-specific insights into the relationship between corporate governance, firm performance, and economic growth (La Porta et al., 1998).

Furthermore, the integration of a joint measure of the effect of corporate governance and institutional quality on the relationship between corporate governance, firm performance, and economic growth in emerging and developed markets yields significant contributions to the body of knowledge. This integration offers a more comprehensive understanding of how institutional factors influence the nexus between corporate governance practices and economic outcomes. By incorporating both measures, the research provides insights into how institutional quality interacts with corporate governance to affect both firm performance and economic growth across diverse market settings. This facilitates robust cross-market comparisons. This comparative analysis highlights the varying influences of institutional

factors in emerging and developed markets. Furthermore, the assessment of institutional quality's moderating role through the integrated measure offers valuable insights for policy and regulatory interventions, emphasizing the importance of institutional quality in shaping the effects of corporate governance on firm performance and economic growth. Through this integrated approach, the study advances our understanding of the intricate interrelationships between institutional quality, corporate governance, and economic performance across different market contexts.

As far as data analysis is concerned, the use of the Generalized Method of Moments/Dynamic Panel Data method enhances the body of knowledge through various mechanisms. Firstly, system GMM presents a robust methodology for addressing issues of endogeneity and time-varying effects in longitudinal data analysis, enabling the examination of dynamic relationships between corporate governance, institutional quality, firm performance, and economic growth over time (Roodman, 2009). Secondly, adopting a method that facilitates the identification of causal relationships and addresses endogeneity allows for the provision of more credible and policy-relevant insights into the influence of corporate governance and institutional quality on firm performance and economic growth, particularly within emerging and developed markets (Imbens & Wooldridge, 2010).

Additionally, the use of system GMM allows for the analysis of longitudinal data across multiple markets, enabling comparative assessments between emerging and developed markets, contributing to a deeper understanding of how the effects of corporate governance and institutional quality vary across diverse economic contexts, thus enriching the knowledge base in these areas (Xu, 2013). Overall, the application of the system GMM methodology provides robust and credible insights into the dynamic relationships between corporate governance, institutional quality, firm performance, and economic growth in different market settings, thereby advancing the body of knowledge.

1.6.3 Empirical Contribution

The study contributes empirical insights into the agency theory discourse by analyzing real-world data from various markets. This empirical approach supports the theoretical framework of agency theory, validating its relevance in understanding firm behavior in different institutional contexts. Corporate governance literature emphasizes the importance of institutionalizing corporate governance within firms, attributing its relevance to shareholders

and other stakeholders (Berglund, 2020; Iskander & Chamlou, 2000). While previous research (e.g., D'Amato and Falivena, 2020; Boonyanet and Promsen, 2019; Mishra and Mohanty, 2014; Ammann et al., 2011b) underscores the positive impact of corporate governance on firm performance, it often lacks depth in discerning whether this relationship holds significance in the short or long run. Additionally, there is a gap in investigating the temporal dynamics of this relationship across various institutional quality environments, such as developed and emerging markets. The current study aims to bridge this gap.

Despite the predominant benefits of good governance systems at both country and firm levels, the relationship between corporate governance, institutional quality firm performance, and economic growth had not yet been established (Škare and Hasic, 2016) jointly in emerging and developed countries. These markets have different economic, political, social, and technological environments that affect the adoption and implementation of corporate governance systems (Morteza et al., 2011). Therefore, a comparative study such as this one contributes to the body of knowledge by pointing out how internal governance and institutional quality affect economic growth and firm performance.

1.7 Benefits of the Study

The findings outlined in the study offer several significant benefits. Firstly, the study highlights the remarkable improvement in corporate governance compliance levels in emerging economies, particularly in South Africa. This suggests that regulatory reforms and initiatives aimed at enhancing governance standards have been effective. By understanding the factors contributing to this improvement, policymakers and regulatory bodies can further tailor interventions to sustain and bolster corporate governance practices globally.

Moreover, the positive correlation between corporate governance and firm performance metrics, such as return on equity (ROE), Tobin's Q, and stock liquidity, underscores the tangible benefits of robust governance mechanisms. Firms that adhere to strong governance practices tend to exhibit better financial performance, which can attract investors, reduce capital costs, and ultimately contribute to long-term sustainability and growth.

Additionally, transparent, and accountable corporate governance practices foster investor confidence by reducing information asymmetry and mitigating risks associated with corporate misconduct. This, in turn, improves access to finance, as investors are more willing to allocate capital to companies with sound governance structures. As a result, firms can tap

into a broader pool of capital resources, facilitating expansion, innovation, and strategic initiatives.

Furthermore, effective corporate governance practices are closely linked to economic growth. By promoting transparency, accountability, and protection of shareholder rights, strong governance frameworks attract investment capital, stimulate entrepreneurship, and enhance overall market efficiency. Consequently, this fosters economic development by creating jobs, driving innovation, and increasing productivity, thereby contributing to broader societal welfare.

The study's insights into the interplay between corporate governance, institutional quality, firm performance, and economic growth provide valuable guidance for policymakers and regulatory authorities. By understanding how institutional factors influence governance outcomes, policymakers can design targeted interventions to strengthen institutional frameworks, address regulatory gaps, and promote a conducive environment for sustainable business practices and economic prosperity.

Furthermore, while this study did not find any significant relationships between corporate governance and firm performance or economic growth in all sampled countries except for India concerning Tobin’s Q (TQ), the revelation that corporate governance maintains a long-term relationship with TQ in India provides valuable insights. This finding in India serves as a focal point for deeper exploration into the contextual factors or governance practices influencing this relationship, potentially offering valuable insights into the effectiveness of governance mechanisms in different economic environments.

Besides, the absence of significant relationships in the other countries signifies crucial information. It indicates that the impact of corporate governance on firm performance and economic growth varies significantly across different regions and economies. Understanding these variations is essential for tailoring governance strategies and policies to suit diverse contexts, prompting further inquiry into the cultural, regulatory, or institutional factors influencing the relationship between corporate governance and economic outcomes in each country.

Additionally, negative or lack of any significant findings contributes significantly to the broader body of knowledge in corporate governance research. They help refine research

methodologies, highlight limitations in governance frameworks, and stimulate new research questions. By acknowledging and documenting these findings, this study adds to the collective knowledge base, guiding future research endeavors and fostering a deeper understanding of the complexities of corporate governance dynamics in different economic contexts.

Finally, the study contributes to advancing knowledge in corporate governance literature by employing rigorous empirical methods and providing nuanced insights into the complex relationships between governance practices, firm performance, and economic outcomes. This deepened understanding enriches academic discourse, informs future research endeavors, and facilitates the development of best practices in corporate governance and regulatory policymaking.

1.8 Structure of the Thesis

This thesis comprises six chapters as follows. Chapter Two reviewed theories and the empirical literature related to corporate governance, institutional quality, firm performance, and economic growth in emerging and developed markets. Chapter three presented the hypotheses tested and the conceptual framework for the study and developed the research hypotheses. Chapter four presents the research philosophy, research approach, research design, data and methodology, and data analysis. Also, the chapter covered data and data sources and methodological contribution to the body of knowledge. Chapter five presents the research findings, while Chapter six discusses the findings, and concludes the study by pointing out limitations, summary, and suggestions for future research.

Chapter Summary

This chapter introduced the thesis by providing the background to the study, justification of the study, motivation and research problem, research objectives, research questions, significance of the study, and the thesis's structure. The next chapter reviews the literature related to the current research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter aims to review the literature on corporate governance, firm performance, institutional quality, economic growth, and related theories. The chapter is structured as follows: Section 2.2 presents the theoretical framework underpinning the study. Section 2.2 presents the theoretical framework for the current research and includes agency theory, information asymmetry, and institutional theory. Section 2.3 presents the empirical literature and includes the definition and measurement of corporate governance, the meaning and measurement of firm performance and firm value, and the relationship between corporate governance and firm performance. The chapter concludes with a chapter summary.

2.2 Theories Underpinning the Study

This study aims to explore the intricate relationship between corporate governance, firm performance, and economic growth across emerging and developed markets. Various theoretical frameworks could potentially underpin this objective, including agency theory, information asymmetry, institutional theory, resource dependency theory, legitimacy theory, and stakeholder theory. However, upon conducting a systemic review of literature, consideration of the research problem, objectives, and variable measurement. three theories were identified as particularly relevant for providing a robust theoretical foundation and these are agency theory, information asymmetry, and institutional theory. Agency theory offers valuable insights into how conflicts of interest between managers and shareholders can influence both firm performance and broader economic outcomes. By examining the principal-agent relationship within corporations, this theory assists in understanding how managerial decisions impact organizational effectiveness and, consequently, macroeconomic stability (Jensen & Meckling 1976; Sun et al., 2015; Wu et al., 2020). Complementing agency theory is information asymmetry which highlights the disparities in information between managers and shareholders and that managers often possess privileged information that may not be fully disclosed to shareholders, thereby potentially distorting decision-making processes, and outcomes (Fama, 1980; Kao et al., 2004a; Yoo, 2008). Given the

multinational scope of the research, institutional theory emerges as another pertinent theoretical lens. Institutions, encompassing formal laws, regulations, and informal norms, shape the governance structures and practices within different countries. Consequently, the quality and effectiveness of institutions can significantly influence the relationship between corporate governance mechanisms, firm performance, and economic growth (Baumöhl et al., 2019; Bülow 2015; Millar et al., 2005). By integrating institutional theory into the analytical framework, this study aims to show how variations in institutional environments across diverse economies impact the effectiveness of corporate governance mechanisms and, by extension, economic outcomes. The theories and how they relate to the current study are discussed in detail below.

2.2.1 Agency Theory (AT)

Agency theory is regarded as one of the most influential theories in corporate governance, policy development, and practice (Aguilera & Jackson, 2003; Brennan & Solomon, 2008; Christopher, 2010; Daily et al., 2003). Jensen and Meckling (1976) defined an agency relationship using the allegory of a contract where one party (the principal) contracts with another party (the agent) to act on his behalf. For the principal to maximize the utility of the relationship, it is expected that the agent's actions will be in the principal's best interest (Jensen & Meckling, 1976; Ross, 1973; Berle & Means, 1932). However, the agent's actions often do not seek to maximize the utility of the principal thus resulting in agency problems. Eisenhardt (1989) posited that two problems arise from the agency relationship. The first is when there is a conflict between the principal's and the agent's goals and desires. The second problem arises from the risk profiles of the principal and the agent. The principal is risk-seeking because he wants to maximize returns from his investments, whereas the agent is risk-averse. The manager wants to save his job. Scholars (e.g., Chng et al., 2012; Eisenhardt, 1989b; Jensen and Murphy, 1990) posited that the conflict of interest between the principal and the agent could be resolved by the principal incurring agency costs such as giving agents appropriate perquisites and incentives.

Agency costs include monitoring, structuring, and costs that accrue from creating contracts that bond agents. An additional cost that may arise is the residual loss. Residual loss arises when the cost of fully enforcing the contract is higher than the benefits from the same. Agency costs lower firm value and therefore these costs must remain low if owners are to

maximize shareholder wealth. For this reason, Fama and Jensen (1983) and Jensen and Meckling (1976) suggested that the survival of organizations depended on their ability to control agency problems. As a result, principals use different mechanisms to control or resolve agency problems. Corporate governance systems worldwide are geared toward resolving agency problems in the principal (shareholders)-agent (managers) relationship. Such systems include designing remuneration contracts for the chief executive and creating independent boards to monitor the management team's actions (Bosse & Phillips, 2014; Fama, 1980; Fama & Jensen, 1983; Yusoff & Alhaji, 2012). In sum, the key idea in agency theory is that the relationship between the principal and agent should lead to efficiency in organizing information and costs of bearing risk. Despite its popularity among corporate governance scholars, agency theory faces criticisms ranging from the use of the term agent to the use of game theory. For instance, Hauswirth (2007) believes that the theory is very formal in its approach and does not consider the complex nature of life. Heath (2009) argued that the theory impacts society negatively, which is the main reason for corporate scandals such as Enron because it has a wrong focus. Heath (2009) posits that the theory ignores organizations' processes and transaction costs and fails to address governance mechanisms. Heath (2009) further argues that the theory is concerned with only one direction of the relationship-principal-agent. Wrong assumptions such as opportunism, the supremacy of shareholder value, separation of roles and ownership, time perceptions, and separate or discrete contracts embody the theory (Huse, 2007).

Additionally, the theory is criticized for under-contextualizing the nature of the agency problem. It cannot accurately compare and explain the diversity of corporate governance provisions across different institutional settings (Aguilera & Jackson 2003). Much of the subsequent policy provisions found in codes of good corporate governance depend on common concepts of best practice, which frequently require modification to the local settings of companies or 'translated' across various national establishments (Aguilera & Cuervo-Cazurra, 2004; Fiss & Zajac 2004; Ahmadjian & Robbins 2005).

The application of agency theory has influenced the examination of corporate governance and related dynamics. Researchers including Jensen and Meckling (1976); Fama and Jensen (1983); and Eisenhardt (1989) all utilized agency theory in scrutinizing various aspects of corporate governance. These diverse studies collectively demonstrate the comprehensive application of agency theory in the examination of corporate governance. Spanning board

structures, ownership dynamics, managerial behavior, and their effect on firm performance, these studies have significantly enriched the understanding of the complexities and dynamics inherent in corporate governance practices and organizational behavior.

Lessons learned from the application of agency theory have been foundational in understanding the dynamics of organizational behavior, particularly in the context of the relationship between principals (shareholders) and agents (managers). One crucial lesson learned is the significance of aligning the interests of principals and agents. This insight has emphasized the importance of structuring contracts, compensation, and governance mechanisms to ensure that the actions of the agent are in line with the goals of the principal (Jensen & Meckling, 1976). This insight has emphasized the importance of structuring contracts, compensation, and governance mechanisms to ensure that the actions of the agent are in line with the goals of the principal (Jensen & Meckling, 1976).

Furthermore, agency theory provides a framework to understand the relationship between firm value and corporate governance by focusing on the conflicts of interest that arise between different stakeholders within a company, particularly between principals (shareholders) and agents (managers) (Cuevas-Rodríguez et al., 2012; Jensen & Meckling, 1976; Rashid, 2015; Renders & Gaeremynck, 2012). This theory suggests that managers, as agents, may prioritize their interests over those of shareholders, leading to agency costs that can affect firm value. Effective corporate governance mechanisms are essential in mitigating these agency problems and enhancing firm value (Jensen & Meckling, 1976).

In the context of a study assessing the effect of corporate governance on firm performance and economic growth in emerging and developed markets, agency theory plays a pivotal role in providing a theoretical framework to understand the dynamics at play. Jensen and Meckling (1976) show that agency theory focuses on the relationship between principals (shareholders) and agents (management), serving as a cornerstone for assessing how governance mechanisms influence firm performance and economic outcomes. The theory delineates the inherent conflicts of interest and information asymmetries that arise within organizations, particularly in the context of dispersed ownership structures. By examining these conflicts and underlying agency problems, the study can gauge how corporate governance mechanisms, such as board structures, executive compensation, and financial

transparency, mediate the alignment of interests between principals and agents, thereby influencing firm performance and economic growth.

By employing agency theory as a lens, the study aims to uncover nuanced perspectives on governance mechanisms, ownership structures, managerial behavior, regulatory environments, stakeholder responses, and institutional contexts in diverse market settings (Jensen & Meckling, 1976; Fama & Jensen, 1983). Through the application of agency theory, the study could examine the effects of varying governance mechanisms, reveal the influence of ownership structures, dissect managerial behaviors, assess regulatory effects, understand stakeholder perceptions, and outline tailored policy and practice implications (Gompers, Ishii, & Metrick, 2003; La Porta et al., 2000; North, 1990). Such an approach has the potential to yield a comprehensive understanding of corporate governance and its effect on firm performance, thereby informing effective policy interventions and future research endeavors, offering a clearer understanding of the complexities surrounding corporate governance across different market settings (Blundell-Wignall & Sarkar, 2008; Shleifer & Vishny, 1997).

In summary, the application of agency theory in a comparative analysis study investigating corporate governance and firm performance across emerging and developed markets holds the promise of providing a comprehensive understanding of governance mechanisms, ownership structures, managerial behaviors, regulatory environments, stakeholder responses, and institutional contexts (Fama & Jensen, 1983; Jensen & Meckling, 1976; La Porta et al., 2000; Gompers, Ishii, & Metrick, 2003). This offers valuable insights and implications for policy, practice, and future research within diverse market settings. By delving into agency problems and governance practices and their subsequent effect on organizational behavior and economic outcomes, such a study has the potential to enrich our comprehension of how governance influences the performance and growth trajectories of firms and economies across varying market environments.

This study confirms the use of the agency theory by enabling the study to investigate the extent to which managers in emerging and developing markets. This study extends the agency theory by investigating the extent to which managers in emerging and developing markets comply with their respective country's codes of corporate governance index that are meant to control their behavior and whether the implemented corporate governance measures can create value for the shareholders by impacting on firm performance positively.

2.2.2 Information Asymmetry and Corporate Governance

In the context of corporate governance, information asymmetry refers to a situation in which one party in a transaction possesses more, better, or more privileged information than the other party (Balakrishnan & Koza 1993; Bergh et al., 2018). This information imbalance may lead to power imbalances, adverse selection, moral hazard, and suboptimal outcomes, particularly in economic and organizational exchanges (Rhee & Lee, 2008). Information asymmetry indicates that in any given relationship, it is impossible to have complete information about the other party's intentions (Akerlof, 1970). This is a common scenario in different spheres of economics and business administration, wherein, one party is more informed about the details of a given transaction than the other (Majić et al., 2015)

In the context of agency theory, information asymmetry theory argues that agents (managers) have more information (some of which is private) about the firm than its shareholders, who are the principals (Healey & Palepu, 2001). Due to this fact, prospective shareholders encounter problems when making investment decisions. The first problem is referred to as adverse selection. Adverse selection arises when an investor wants to invest in a company with the best management practices (Rhee and Lee, 2008) and an investor faces a dilemma of choosing a company with the best management team among the many companies because they do not have full information about them (managers). The second problem arises when shareholders feel that managers will use their superior knowledge/information to extract disproportionate perquisites at their expense or, worse still, invest in projects that do not increase shareholder value. This problem is referred to as a moral hazard problem (Kapopoulos & Lazaretou, 2007; Ntim, 2009).

Mishkin (1998) and Jensen and Meckling (1976) suggested that rational prospective shareholders have some options for managing the information asymmetry problem. The first option is to consider adding the potential costs of information asymmetry when making an investment decision. To minimize moral hazards and adverse selection dilemmas some firms adopt signaling ways that will indicate their competitiveness to future shareholders and the adoption and implementation of good corporate governance mechanisms are often used as one of the signaling mechanisms (Connelly et al., 2011; Esqueda, 2016; Su et al., 2016). For instance, a firm that appoints an independent, non-executive director to chair the board of directors' signals to its prospective investors that they will be treated fairly and that their

investment will be secure. Therefore, firms that signal or disclose to their shareholders and stakeholders reduce advance selection and moral hazard problems (Black et al., 2006a; Black, Love, & Rachinsky, 2006b). Because of good governance signals, the value of the share tends to go up and the expected cost of capital tends to go down, holding all other factors (Black et al., 2006a; Chen, Chen, & Wei, 2009; Shabbir & Padgett, 2005).

The disagreements on the information asymmetry theory may arise from contextual variations, encompassing differences in how information asymmetry is manifested across various contexts, industries, and institutional settings. For instance, the impact of information asymmetry in financial markets (Capasso, 2004; Ivanitsky and Tatyannikov, 2018,) may be perceived differently compared to its effects on consumer markets (Anon, 2009; Ivanitsky and Tatyannikov 2018; Kulkarni, 2000) or public policy (Mann & Wüstemann, 2010; Ruffing, 2015). Lastly, the divergent perspectives on the theory may be attributed to the application of different interpretive perspectives including economic (Mann and Wüstemann, 2010), sociological (Begun, 1986), or behavioral perspectives (Komalasari, 2016). Each perspective has a different emphasis on distinct aspects of the theory, resulting in variations in its conceptualization.

Despite the theory providing valuable insights into the dynamics of markets and transactions, it is not without its criticisms. One of the primary critiques revolves around its assumption that information is always imperfectly distributed between market participants (Balakrishnan & Koza 1993). Those who do not support the theory argue that in today's highly connected and technologically advanced world, information dissemination is more rapid and widespread than ever before (Majić et al., 2015). The other criticism is that the theory's reliance on the idea that one party possesses superior information, and as such creating a power imbalance may oversimplify the complex reality of modern markets (Mühlbacher et al., 2018).

Lastly, information asymmetry tends to emphasize the negative consequences of information disparities, such as adverse selection and moral hazard, without adequately exploring potential benefits (Mühlbacher et al., 2018). Another criticism involves the assumption that reducing information asymmetry is always desirable (Gümüş et al., 2012), while increased transparency is beneficial without acknowledging that there are situations where certain forms of information asymmetry are essential for market functioning. For instance,

proprietary information and intellectual property rights rely on a degree of information asymmetry to incentivize innovation (Jeon, 2019).

Studies that have applied the information asymmetry theory are diverse, contributing to advancements in areas such as finance, economics, organizational behavior, and corporate governance. For instance, Kyle (1985) used the theory to understand the impact of information asymmetry on market efficiency and its consequences on stock prices, trading volume, and market liquidity. Important contributions to market microstructure theories and trading strategies have stemmed from these insights (Kyle, 1985). Also, the theory has been instrumental in analyzing corporate finance decision-making, particularly in examining capital structure decisions, dividend policy, and financial reporting practices. For instance, Myers and Majluf, (1984) used the theory to examine how the agency costs associated with information asymmetry and incentive mechanisms align the interests of managers and shareholders. Furthermore, the theory has been used within the realm of corporate governance, to inform the understanding of governance mechanisms, such as the role of the board of directors, executive compensation, and shareholder activism. For instance, Bebchuk and Fried, (2003) used the theory to identify corporate governance practices that are aimed at mitigating the adverse effects of information asymmetry and enhancing firm performance. Other studies (e.g., Bebchuk, 2002; Chung and Luo, 2008; Saam, 2007) used the theory in conjunction with the agency theory.

Lessons that have been learned from the use of the theory include drawing attention to market Inefficiencies that result from unequal access to information (Bebczuk, 2003; Holmstrom, 1979; Kulkarni, 2000), thereby increasing awareness of potential distortions in pricing, resource allocation, and decision-making processes in different economic contexts. In the context of improving corporate governance, the information asymmetry theory has emphasized the significance of transparent disclosure practices and the necessity for robust corporate governance mechanisms to mitigate the detrimental effects of information asymmetry (Balakrishnan et al., 2008; Hassan & Marston 2019; Jeon, 2019; Rhee & Lee 2008). This has propelled improvements in corporate disclosure, board oversight, and executive compensation practices. In addition, information asymmetry has played a pivotal role in informing regulatory reforms designed to enhance transparency, disclosure requirements, and investor protection (Agarwal et al., 2015; Bebchuk, 2002; La Porta et al., 1999, 2002). For instance, the creation of laws such as the Sarbanes-Oxley Act of 2002 in the

USA that require ownership reports and trading by officers, directors, and principal securities is an outcome of the theory as the law is aimed at mitigating the adverse effects of asymmetrical information in the USA financial markets and corporate settings. The current study extends the information asymmetry theory by proposing that good governance is not only a signal to the shareholders and investors about the attractiveness of a company, but it may lead to improved firm performance, which may have a positive impact on the economy.

2.2.3 Institutional Theory

Institutional governance is viewed through institutional theory, which is a perspective that emphasizes the role of social norms and shared expectations in shaping organizational structures, actions, and outcomes. Institutional theory argues that organizations adopt certain practices and forms not only because of their technical efficiency but also because of their legitimacy and conformity with the prevailing norms and values of society (David et al., 2019). One of the applications of the institutional theory is to explain the variation and convergence of corporate governance practices across different countries and regions (e,g., Kang & Moon 2012; Uyar et al., 2019; Zattoni et al., 2020). Institutional theory suggests that corporate governance is shaped by the institutional context in which firms operate, such as the legal system, the financial market, the labor market, the cultural values, and the political system (Filatotchev et al., 2013). Different institutional contexts may create different incentives and constraints for managers and owners, and thus lead to different corporate governance arrangements (Aguilera & Jackson, 2012).

There are different views and debates among authors on what the theory stands for and how it should be applied. There is agreement that organizations are not only driven by economic rationality but also by legitimacy and conformity with the institutional environment. It is also agreed that institutions are composed of regulative, normative, and cultural-cognitive elements that shape and constrain organizational behavior (Scott, 2014). On the contrary, there is disagreement on the level of analysis, the role of rationality, and the degree of change as far as institutional analysis is concerned. Some authors focus on the macro-level of the institutional environment and its impact on organizations, while others focus on the micro-level of the actors and their agency in creating and changing institutions (David et al., 2019).

Some authors stress the stability and persistence of institutions, while others stress the dynamism and variability of institutions (David et al., 2019).

The similarities and differences in the understanding of what the theory stands for reflect the richness and complexity of the phenomenon of institutionalization, as well as the diversity and creativity of the theoretical and empirical contributions in this field. Institutional theory is not a monolithic or static theory, but a vibrant and evolving one, that can accommodate different perspectives and approaches, and that can address different questions and problems (Bell, 2011; Zhao et al., 2017).

Institutional theory has been utilized both in isolation and in combination with other theories and perspectives, contingent upon the specific research questions and problems at hand. Notable examples include its integration with social movement theory which explains how social movements shape institutions; it has also been combined with resource dependence theory to delineate the interplay between institutional and resource constraints; and with network theory to explore the bidirectional relationship between networks and institutions (Clemens & Cook, 1999; Pfeffer & Salancik, 1978; Powell & DiMaggio, 1991; Hallett & Hawbaker, 2020).

As a perspective that emphasizes the role of social norms and shared expectations in shaping organizational structures, actions, and outcomes, one of the applications of institutional theory is to explain the variation and convergence of corporate governance practices across different countries and regions (Jamali & Neville, 2011; Lattemann, 2014; Uyar et al., 2019). Institutional theory suggests that corporate governance is shaped by the institutional context in which firms operate, such as the legal system, the financial market, the labor market, the cultural values, and the political system. Different institutional contexts may create different incentives and constraints for managers and owners, and thus lead to different corporate governance arrangements (Aguilera & Jackson, 2010). Institutional Theory provides insights into the relationship between firm value and corporate governance by highlighting the influence of institutional pressures and norms on governance structures and practices (Scott, 2001).

Institutional Theory also acknowledges that institutional pressures may lead to isomorphic tendencies, resulting in conformity without necessarily improving firm performance or value (DiMaggio & Powell, 1983). In some instances, firms might adopt governance practices

primarily to gain legitimacy without direct positive effects on value creation. In summary, institutional theory suggests that external institutional pressures influence governance practices adopted by firms, potentially impacting firm value through enhanced legitimacy and conformity with prevailing norms and regulations.

In the context of the current study, the institutional theory helps to understand the effect of corporate governance on firm performance and economic growth in emerging and developed markets. Emerging markets are characterized by weaker and less stable institutional environments, such as less developed legal systems, less efficient financial markets, more corruption, and more political uncertainty (Bülow, 2015; Claessens & Yurtoglu, 2013; Rahaman & Otchere, 2021). These institutional factors may affect the quality and effectiveness of corporate governance in emerging markets, thus, influencing the ability of firms to access capital, innovate, compete, and grow (Zattoni et al., 2020). On the other hand, developed markets are characterized by stronger and more stable institutional environments, such as more developed legal systems, more efficient financial markets, less corruption, and less political uncertainty. These institutional factors may facilitate the adoption and enforcement of corporate governance practices in developed markets (Zattoni et al., 2020; Zattoni and Cuomo 2008), and thus enhance the performance and growth of firms. The institutional theory acknowledges that there is no one-size-fits-all model of corporate governance and that different institutional contexts may require different adaptations and innovations of corporate governance practices to suit the specific needs and challenges of firms (Filatotchev et al., 2020; Griffith, 2015)

The theories discussed above collectively enrich the understanding of corporate governance by offering multifaceted insights into governance mechanisms and their implications within organizations. Understanding the interdependency between corporate governance, firm performance, and economic growth across diverse markets demands a comprehensive approach that extends beyond the scope of any single theory. This study acknowledges that specific aspects of broader influencing factors, stemming from continuous changes in areas like legal, regulatory, sociological, ethical, human resource management, behavioral, and corporate strategic frameworks, are often overlooked when the effect of corporate governance is viewed through the limited perspective of agency theory (Christopher, 2010). Therefore, this study has adopted a multi-theoretic perspective that uses the above key theories. The use of several corporate governance theories within a cohesive framework offers a potent

analytical tool for unraveling the intricate relationship between corporate governance, firm performance, and economic growth across emerging and developed markets. By illuminating the interplay of stakeholders, efficiency, and context-specific realities, this approach paves the way for a deeper understanding of navigating the complex path toward inclusive and sustainable prosperity in an interconnected global landscape.

2.2.4 A Multi-Theoretical Framework A Approach: How These Different Theories Work Together

The theories (Agency, Stakeholder, Resource Dependence, Stewardship, Legitimacy, Transactional Cost, information asymmetry, and Institutional) collectively enrich the understanding of corporate governance by offering multifaceted insights into governance mechanisms and their implications within organizations. Therefore, understanding the interdependency between corporate governance, firm performance, and economic growth across diverse markets demands a comprehensive approach that extends beyond the scope of any single theory. This study has adopted a multi-theoretic perspective that combines the eight key theories in corporate governance. The amalgamation of the corporate governance theories within a cohesive framework such as the internal corporate governance compliance score (ICGCS) and the institutional quality measure (IQM) offers a potent analytical tool for unraveling the intricate relationship between corporate governance, firm performance, and economic growth across emerging and developed markets. The key contributions from each theory are summarised in Table 1 below.

Table 1 Summary of how the different theories of corporate governance contribute to this study

Theory	Contribution	Governance Scoring Tool
Agency Theory	Focuses on aligning incentives between shareholders and managers. This contributes to the ICGCS by highlighting the importance of executive compensation and board structure aspects	ICGCS
Information Asymmetry Theory	Highlights the importance of mitigating information disparities. This contributes to the ICGCS by incorporating measures related to	ICGCS

	financial transparency, disclosure practices, and the independence and effectiveness of audit and control functions.	
Institutional Theory	Acknowledges the influence of institutions (formal rules and regulations) that may affect corporate governance practices. It is the basis for constructing the IQM.	Institutional quality measure (IQM)

2.3 Empirical Literature

2.3.1 Definition of Corporate Governance (CG)

Defining corporate governance is challenging due to its multifaceted nature as it encompasses a broad range of factors, including the roles and responsibilities of boards of directors, executive management, and shareholders. Furthermore, corporate governance practices differ across countries and industries due to variations in legal systems, ownership structures, and societal norms. This diversity poses challenges when comparing studies conducted in different contexts (Mallin, 2020). Additionally, corporate governance is influenced by various contextual factors, such as legal and regulatory environments, cultural norms, and stakeholder expectations (Mallin, 2016). Legal and regulatory differences contribute to the challenge, as corporate governance practices can vary significantly across areas, leading to different interpretations and expectations of what constitutes good governance (Solomon, 2019). The subjective nature of some aspects of corporate governance further complicates its definition, as stakeholder interests may differ, making it challenging to strike a balance between the interests of shareholders, management, employees, and the broader community (Mallin, 2016). Moreover, the evolving business environment, marked by technological advances, globalization, and shifts in societal values, adds dynamism to the criteria for effective governance (Tricker, 2015).

Scholars concur that corporate governance involves the structures, processes, and mechanisms used to direct and oversee corporations, ensuring accountability, transparency, and ethical conduct (Monks & Minow, 2011). In addition, agreement exists around the

purpose of corporate governance, which is to align the interests of various stakeholders, including shareholders, management, and the board of directors, to achieve organizational objectives (Shleifer & Vishny, 1997). Additionally, consensus prevails on the importance of a robust board of directors, independent oversight, and effective risk management as integral components of sound CG (Cadbury Committee, 1992). Yet, discussions arise regarding the ideal composition, structure, and responsibilities of the board to ensure its effectiveness (Tricker, 2015). While there's agreement on the fundamental principles and objectives of CG, disagreements emerge concerning its emphasis, stakeholders' prioritization, and the most effective strategies for implementation.

Key contributors to the variations in the definition of corporate governance include the evolution of CG theories and practices over time. Theoretical advancements and empirical studies have fostered a multifaceted understanding of CG, leading to diverse interpretations (Shleifer & Vishny, 1997; Monks & Minow, 2011). Divergent views also emerge regarding the primary focus of CG. Some emphasize shareholder wealth maximization, while others advocate for a broader stakeholder approach, considering the interests of employees, customers, and the community (Freeman & Reed, 1983; Jensen, 2002). Moreover, the complexity of modern corporations, characterized by diverse ownership structures, multinational operations, and intricate stakeholder relationships, further contributes to varied perspectives on the application and significance of CG (Tricker, 2015; Monks & Minow, 2011). Differences in regulatory environments and legal frameworks across areas also significantly influence the interpretation and application of CG principles (La Porta et al., 1999; Cadbury Committee, 1992). These factors collectively create diverse lenses through which CG is perceived and practiced across industries, regions, and academic disciplines.

Based on the differences in defining corporate governance plus the ongoing debates, this research views corporate governance from the four following perspectives. First, corporate governance is the process and outcome of balancing the interests, expectations, and responsibilities of various stakeholders in the creation and distribution of value by the corporation. It is a process and an outcome because it is not only a set of rules and practices but a dynamic and interactive process that shapes and reflects the performance and effect of the corporation. Secondly, it balances the interests, expectations, and responsibilities of various stakeholders because it involves making trade-offs and compromises among competing and conflicting goals and demands of different stakeholders and finding the

optimal or acceptable solutions for the corporation and its stakeholders. Thirdly, corporate governance recognizes that stakeholders have different and evolving interests, expectations, and responsibilities regarding the corporation and that these need to be identified, understood, and addressed by the corporation and its governance mechanisms. Lastly, corporate governance acknowledges that the corporation has multiple and diverse stakeholders, both internal and external, such as shareholders, managers, employees, customers, suppliers, regulators, society, and the environment, and that these stakeholders have different and interdependent roles and influences on the corporation and its governance.

2.3.2 Measurement of Corporate Governance

As far measurement of corporate governance is concerned, policymakers and scholars believe that a positive relationship exists between corporate performance and the quality of corporate governance. To assess this proposition, a metric for corporate governance is essential. Two competing models are often used to measure corporate governance. These are the equilibrium-variable and compliance model (Ntim, 2009).

The equilibrium model presupposes that an endogenous relationship exists between internal corporate governance mechanisms adopted by a firm and its financial performance (Agrawal & Knoeber, 1996; John & Senbet, 1998). The model argues that every company has its optimal governance system, and it should be allowed to choose the system that works for it without external involvement (Ntim, 2009). In other words, a company's governance systems should be internally determined (Danielson & Karpoff, 1998). Due to this, a company will keep changing its governance mechanisms until the marginal utility of adding another governance mechanism is zero (Agrawal & Knoeber, 1996; Himmelberg et al., 1999). Consequently, governance mechanisms such as board size, having an independent board, CEO compensation, CEO Duality, gender balance, and the presence of several board committees may alleviate agency problems and lead to better firm performance. Nevertheless, the same mechanisms may not necessarily work in another company simply because of differences in ownership structure, company size, or type of industry, among other factors (Ntim, 2009). This approach of measuring corporate governance is the oldest and was adopted by scholars such as Baysinger and Butler (1985) and Demsetz and Lehn (1985) before the introduction of corporate governance codes in the 1990s and early 2000s (Aguilera & Cuervo-Cazurra, 2009; Black et al., 2006a; Danielson & Karpoff, 1998).

Several studies have used the equilibrium model to measure the relationship between different mechanisms of corporate governance and firm performance with varying findings. For instance, Beiner et al., 2006; Brennan, 2006; Martín-Ugedo and Minguez-Vera, 2014; Oba et al., 2014; Yermack, 1996) evaluated the relationship between board size and firm performance and the findings were inconclusive. Other studies (e.g., Lucas-Pérez et al., 2015; Perryman et al., 2016; Usman et al., 2018; Walt and Ingley 2003) focused on various aspects of board diversity as measures of corporate governance with varying results. Other commonly used measures of corporate governance under the equilibrium model are CEO compensation (Bi et al., 2022; Core et al., 1999; Oxelheim & Clarkson, 2015); and CEO duality (Miller and Yang 2015; Peng et al., 2010). Other studies (e.g., Elfaitouri, 2014; Oba et al., 2014; Shakri et al., 2022; Sun et al., 2020) have measured corporate governance using the structure of the board.

Schnyder (2012) posits that although employing simplified measures of corporate governance is presented as the primary remedy for the challenges related to measuring corporate governance, Larcker et al., (2007), found the approach problematic for two main reasons. First, single measures introduce a significant risk of measurement inaccuracies. Additionally, focusing on a singular measure or a limited set of measures to capture the complex nature of corporate governance gives rise to considerable risks of biased omission of correlated variables. Schnyder (2012) contends that besides the methodological justifications, the use of simpler measures is undesirable from a theoretical standpoint. This is because the use of one or several corporate governance mechanisms may compel researchers to overlook any potential interactive effects among corporate governance mechanisms.

The compliance-index model or the bundles approach of measuring corporate governance and performance nexus emerged in governance research work after the introduction of corporate governance codes in the early 2000s. The key idea of the bundles' approach is that firm-level corporate governance mechanisms may not matter individually but develop their effects in combination with other mechanisms (Aguilera et al., 2008; Aguilera & Desender, 2012; Rediker & Seth 1995; Ward, 2009). Scholars who use the compliance model argue that corporate governance mechanisms are externally imposed and therefore, companies choose governance systems as a set or a bundle (Danielson & Karpoff, 1998; Shabbir & Padgett, 2005). In this case, the model posits that a company’s financial performance is likely to be affected by several governance mechanisms with interactive influence jointly instead of

working as independent systems (Aguilera et al., 2012; Schnyder, 2012). Therefore, the model recommends that governance studies should not look at the impact of single governance systems but rather construct compliance or composite corporate governance index that sums up corporate governance mechanisms to evaluate the nexus between corporate governance and firm performance (Bebchuk et al., 2009).

Studies that premiered this approach to governance studies include La Porta et al., (1998) and Gompers et al., (2003). La Porta et al., (1998) developed an anti-director rights index (ADRI) using six share protection guidelines in 49 countries. The index was used to assess the level of protection of minority shareholders worldwide. The key findings of this study include the existence of a strong correlation between the index, economic market capitalization, and economic growth (Daine et al., 2010).

Although constructed indices have become a common measure of corporate governance quality and compliance, they have weaknesses. One weakness that is often seen is subjectivity. Construction of indices requires selecting, weighing, and scoring governance attributes (Hermalin & Weisbach, 2003). This process might introduce biases and impact the objectivity of assessments (Gompers et al., 2003). Moreover, governance indices can potentially emphasize formal compliance and structure over the substantive effectiveness of governance mechanisms (Mallin, 2007). This focus on formalistic aspects might not capture the true impact of governance practices on firm performance and stakeholder interests (Bebchuk & Hamdani, 2009).

Another drawback is the lack of universally accepted standards or criteria for governance indices, leading to discrepancies in ratings across agencies or providers (Clarke & dela Rama, 2006). This inconsistency limits the meaningfulness of comparisons and assessments. Additionally, governance indices may not adequately consider the contextual nuances of diverse cultural, legal, or industry-specific settings (Jackson & Roe, 2009). This limitation reduces the relevance and applicability of indices, particularly in diverse organizational environments. Finally, governance indices often rely on publicly available data, which might be limited or incomplete, hindering comprehensive evaluations of governance practices (Hillman & Dalziel, 2003).

Moreover, the data utilized in widely recognized indices may not uniformly represent the intricacies and specificities of governance practices across different economies. A custom

index allows for a more nuanced consideration of contextual variations in corporate governance practices prevalent in distinct regions or economies. Tailoring the index to account for these variations ensures a more comprehensive evaluation, capturing governance intricacies that might be overlooked by broader, standardized indices. The personalized governance index further enables the prioritization and weighting of governance factors based on their perceived significance in influencing firm performance and economic growth. This customized approach ensures that the index reflects the unique governance dynamics driving outcomes in both emerging and developed economies, aligning closely with the study's objectives.

The conclusion drawn about measuring corporate governance is that the measures used are derived from governance codes, legislation, and regulations, literature, industry insights as well and policy documents that offer recommendations and guidance to companies and boards. These resources serve as a practical foundation for evaluating corporate governance and constructing governance indices. Nevertheless, it can be contended that corporate governance necessitates more than adherence to sets of standards or codes, which often represent the minimum level of governance expectations. Effective corporate governance encompasses human behavior and a corporation’s societal role, governance practices, and interactions with key stakeholders. Effective corporate governance entails adherence to principles with substantial, high-quality disclosure, and transparency for all stakeholders. However, past efforts to evaluate corporate governance have encountered significant challenges such as the exclusion of non-financial indicators, unresolved variables, the utilization of a combined approach, endogeneity, and the relevance of board dynamics.

2.3.3 Corporate Governance Mechanisms

2.3.3.1 Internal Corporate Governance Mechanisms

Corporate governance mechanisms can be classified into internal or institutional quality mechanisms. The difference between the two emanates from the source of action of a governance mechanism (Walsh & Seward, 1990). Extant literature (Jensen and Meckling, 1976; OECD, 2004) indicated that internal governance mechanisms include board structure, managerial incentives, and ownership structure. These three governance mechanisms are critical in aligning the interests of shareholders and managers, mitigating the agency problem, and resulting in higher firm performance if implemented effectively (Aguilera et al., 2015;

Misangyi & Acharya, 2014). However, other internal mechanisms include transparent disclosure of information and shareholder rights (OECD, 2004).

The board of directors is a vital tool designed to reduce hostilities between shareholders and management (Fama & Jensen, 1983; Jensen & Meckling, 1976). Hence, various aspects of board structure have been studied as mechanisms that can mitigate agency problems (Alchian & Demsetz, 1972; Fama & Jensen, 1983). The board exists to serve the interests of the owners and may be obligated to address the interests of other stakeholders. Iskander and Chamlou (2002) gave a detailed description of what a board of directors should entail. Key characteristics of an effective board include independence, tenure, size, diversity, chair role, compensation, committees, and tenure (Fama & Jensen, 1983; Iskander & Chamlou, 2000).

The board of directors needs to be a 'live' board in that it should add value to the company. Therefore, those who serve as board members should be knowledgeable about the company's business or have general business knowledge in finance, management, marketing, production, and any other discipline related to the company (Turki & Sedrine, 2012). Iskander and Chamlou (2000) pointed out that the board of directors must be diverse as this will promote effective decision-making. The board must be of a reasonable size. Thus, it should not be too small or too big, and the proposed maximum number of directors is fifteen (15). Lipton and Lorsch (1992) suggested a preferred size of eight (8) to nine (9), arguing that the marginal gains (intensity in monitoring management) derived from a board with more than ten members become lesser due to the cost of slowness in making decisions. Additionally, smaller boards have better team dynamics (cohesiveness, effective discussion, better time management) and consume less pecuniary and non-pecuniary resources of the firm in the form of remuneration. Jensen (1993) maintained that large boards are hard to coordinate and can easily be controlled by a dominant CEO because of related and directors shirking and free riding. In addition, an effective board should have a term limit to allow new and fresh ideas to join the team. Other board characteristics that have become of interest to scholars are gender representation, board compensation, and board tenure (Iskander & Chamlou, 2000).

The board of directors must carry out specific responsibilities to effectively mitigate agency problems. Iskander and Chamlou (2000) and the King Committee (1994) described the responsibilities and functions of boards as follows. One is to direct the company on matters of strategy and structure and overall business direction, such as choice of business investments.

In addition, the board plays a supervisory role in ensuring that management implements the company strategy. Two, the board ensures that the company has established necessary internal control systems for better financial and operational management. Third, the board monitors and ensures that management executives implement board decisions. Fourth, acting on behalf of the shareholders, the board hires the CEO and other senior management, determines the nature of CEO remuneration, and puts a succession plan for senior management. Five, the board communicates to the outside world any information about the company's activities, and lastly, the board ensures that the company's operations are ethical.

Other internal corporate governance mechanisms can be adopted by firms to manage the agency problem. Jensen (1990) argued that shareholders secure themselves from the effects of the CEO's non-risky decisions by designing compensation policies that link shareholder wealth to management welfare. The firm does this by designing appropriate reward/prerequisite packages that are motivating enough to bring alignment between the interests of shareholders and management (Mangel & Singh, 1993). Management compensation plans act as a contract, and they are supposed to link the interests of shareholders with those of managers (CEO and other key executives in management).

Jensen and Meckling, (1976) show that ownership structure can also help in aligning the interests of managers and shareholders. The ownership structure comprises three parts which are, the proportion of equity held by managers (inside equity), the proportion of equity held by people who are not part of management (outside equity), and the amount of debt held by outsiders (debt). Both outside equity and inside equity have agency costs. Outside equity has an agency cost arising from the conflict of interest between outside shareholders and shareholder managers (Morck et al., 1988). This conflict arises when outside equity holders demand to be paid cash dividends, whereas management wants to retain cash for future investments. In cases where outside equity holders cannot monitor management, large equity holders can expedite third-party buyouts by selling off their profitable stakes (Hu & Izumida, 2009).

Ownership concentration or the presence of large shareholders acts as a governance mechanism and thus mitigates agency costs. This argument assumes that dispersed shareholding in large companies increases agency problems (Morck & Vishny, 1988; Turki & Sedrine, 2012). Hu and Izumida (2009) propounded that the positive influence of

ownership concentration is based on the efficient monitoring principle. Under this principle, large shareholders are better placed to monitor management because of their power and the incentives arising from ownership concentration. Large shareholders are inclined to play a vigorous role in decisions that affect the corporation since they understand the benefits of their efforts as monitors (Grossman & Stiglitz, 1980). Large equity holders employ various monitoring methods ranging from non-official consultations with management to formal proxy challenges (Shleifer & Vishny, 1997b).

Cho (1988) proposed that inside equity holders profoundly impact a firm's financing decisions, performance, and risk. Smith and Stulz (1985) also posited that a higher proportion of insider ownership affects managers' risk profiles negatively because the insiders will have a more personal stake in the company than when their ownership is low. For this reason, managers with high proportions of equity in the company fear investing in high-risk projects more than those with low ownership proportions. In addition, managers with a substantial level of ownership in a company will most probably entrench and affect firm performance. This approach to management ownership is known as managerial risk-aversion or entrenchment proposition. It concludes that managerial or insider ownership is negatively related to equity return and a firm's risk (Mínguez-Vera & Martín-Ugedo, 2007; Zou & Adams, 2008).

On the other hand, the incentive alignment hypothesis argues that a shareholder-manager who shares returns with outside shareholders can be enticed to maximize his value by not engaging in morally hazardous behavior (Morck & Vishny, 1988). This is because, as managers increase their proportion of ownership in a company, they become motivated to maximize firm value by ensuring that their interests become congruent with those of outside shareholders (Vintilă and Gherghina, 2014) thereby resolving agency problems.

Jensen (1986) argued that debt benefits the firm because of the disciplinary nature of its interest payment prearrangements. The use of debt also bears the bankruptcy threat and is information-laden (Grossman & Hart, 1983; Harris & Raviv, 1990). However, if shareholders seek to maximize profits by over-investing this would lead to high borrowing costs, which may appear to be reflective of high agency costs (Park & Jang, 2013). Leverage can harm performance, especially in highly leveraged firms (Fosu, 2013). A negative relationship

between firm performance and leverage is also reported by some scholars (e.g., Bhagat & Bolton, 2008; Ghosh, 2008).

The above literature shows the significance of individual corporate governance mechanisms in mitigating agency problems and how these governance mechanisms impact firm performance. It also shows contradictory results in different studies. The current study responds to this problem by developing a comprehensive corporate governance score because it believes that governance mechanisms are more effective when combined.

2.3.3.2 Corporate governance and institutional Quality

The efficiency of corporate governance mechanisms is a vital determinant of firms' performance and endurance (Olawale & Obinna, 2023). In addition to corporate governance, institutional quality, which encompasses the general standard of a country's institutions, comprising legal frameworks, regulatory systems, and political stability, has also been acknowledged as a notable factor impacting firm performance (Larcker & Tayan, 2015). Institutional quality impacts firms' behavior, decision-making, and performance by creating an environment that can either facilitate or impede business operations (Olawale & Obinna, 2023). Strong institutions offer clear and enforceable rules, protect property rights, ensure contract enforcement, and cultivate fair competition among firms, thereby fostering trust and confidence in the business environment (Bermpei et al., 2018; Ward et al., 2009).

Scholars posit that institutional quality is one of the reasons why corporate governance systems differ globally. For instance, Filatotchev et al., (2013) argue that gaining insight into the global diversity of corporate governance mandates a rich comparative understanding of institutions. Similarly, insights from Acemoglu et al., (2003) indicate the pivotal role of institutional distinctions in differentiating affluent from poorer nations. Consequently, a review of prior research and theoretical frameworks is imperative to grasp the influence of institutions on corporate governance.

Cuervo (2002) utilized codes of governance to explore deficiencies in shareholder protection within market-oriented (Anglo-Saxon) and shareholder-oriented (continental European) corporate governance systems. However, the study acknowledges enforcement issues in continental Europe, impeding the utilization of codes. Thus, it proposes the expansion of market control mechanisms to enhance firm value maximization. This examination, however, has two limitations. Firstly, focusing solely on legal institutions may offer a narrow

perspective on code effectiveness. Evidence demonstrates that prevailing culture (Haniffa and Cooke, 2002) and dominant religion (Coşgel andMiceli, 2009; Grullon et al., 2009), for instance, are pivotal to code efficacy. Legal institutions can face challenges of legitimacy, further undermining their effectiveness. Secondly, as highlighted in Judge et al., (2008), global corporate governance systems cannot be confined to the market-oriented or stakeholder-oriented (continental European) models. Consequently, the findings in Cuervo (2002) may be inconsistent with studies exploring emerging corporate governance models in alternative capitalism.

Aguilera and Jackson (2003) employed an actor-centered model to identify the social relationships and institutional arrangements that determine the control and governance of rights and responsibilities among corporate stakeholders, as well as whose interests the corporations serve. Although the study solely focused on advanced capitalist economies, the use of an actor-centered model lacks clarity, as it does not specifically identify a particular stakeholder. The key actors in market-oriented and stakeholder-oriented institutional environments differ, encompassing shareholders and stakeholders (such as banks). Addressing the preferences of clearly identified drivers of the system will enrich corporate governance scholarship. Doidge et al., (2007) broadened the spectrum of institutional factors by incorporating the level of economic and financial development, in addition to the legal institutions previously noted in Cuervo (2002). Their study emphasizes the effectiveness of using country characteristics as an explanatory variable for disparities in governance ratings, in contrast to relying on firm characteristics.

Therefore, institutional quality is considered an explanatory variable in this study because of its perceived effect on the effectiveness and application of corporate governance mechanisms (Wu & Chen, 2014). Strong institutions, including robust legal frameworks, effective regulatory systems, and political stability, are essential for facilitating transparent and accountable business practices, which are foundational for sustainable economic growth (Willmott, 2015). Additionally, institutional quality can influence the level of investor confidence, access to capital, and overall business environment, all of which are critical for firm performance and economic growth (Knack & Keefer, 1995). Assessing the interaction between institutional quality and corporate governance can provide valuable insights into the specific mechanisms and contextual dynamics that shape these relationships, offering a

comprehensive understanding of the dynamics at play in emerging and developing economies.

2.3.4 Defining and Measuring Firm Performance and Firm Value

Firm performance encapsulates the overall effectiveness and efficiency with which a company utilizes its resources to achieve its objectives and generate value for its stakeholders (Chenhall & Langfield-Smith, 1998). In the context of studying the relationship between corporate governance and firm performance, the notion of firm performance extends beyond mere financial gains. It encompasses the ability of the company to sustainably generate profits while maintaining ethical standards, fostering innovation, managing risks, and fulfilling its societal responsibilities (Bebchuk et al., 2009; Waddock & Graves, 1997). Measuring firm performance involves assessing various dimensions, which may include financial measures like profitability, liquidity, and solvency ratios (Ameer et al., 2012). Additionally, non-financial indicators such as market share, innovation, sustainability practices, and social responsibility initiatives also contribute to comprehending firm performance (Waddock & Graves, 1997). This study uses the following three measures of firm performance; firm value as measured by Tobin's Q, stock market liquidity, and firm profitability as measured by return on equity.

Tobin's Q represents the ratio of a company's market value to the replacement cost of its assets. It measures the relationship between a firm's market value and its tangible assets, indicating whether a company is valued more or less than the cost of replacing its assets (Tobin, 1969). A value greater than 1 implies that the market values the firm above its asset value, indicating potential overvaluation, while a value below 1 suggests undervaluation. Tobin's Q captures the extent to which a firm is delivering shareholder value relative to its asset base. It is a significant measure for assessing investment efficiency and the market's perception of a firm's growth prospects and potential for generating future profits (Haskel & Westlake, 2017). Corporate governance studies that have used Tobin's Q as a measure of firm performance include (Black, 2001; Black et al., 2006a; Elfaitouri, 2014; Wang, 2015; Wernerfelt, and Montgomery, 1988) among others. These studies found a positive relationship between different measures of corporate governance and Tobin Q.

Stock market liquidity is a measure of the ease with which investors can buy or sell shares of a company without significantly affecting its stock price. Liquidity indicators include trading

volume, bid-ask spreads, and market depth. Higher liquidity indicates better market efficiency, facilitating smoother transactions and reducing trading costs for investors (Hasbrouck, 2004). Return on Equity (ROE) is a profitability measure that evaluates the firm's ability to generate profits relative to its equity (Higgins, 2012). The measure assesses how effectively a company utilizes its resources to generate earnings, providing insights into its operational efficiency and financial health (Hitt et al., 2012). These measures collectively offer different perspectives on a firm's performance, reflecting aspects related to market valuation, market efficiency, and operational effectiveness.

El Mir and Seboui (2008) asserted that corporate governance is commonly perceived as the primary influencer of company performance. However, the disparity in performance measures used in past studies could explain the conflicting findings regarding the significance of corporate governance on firm performance. For instance, Raja and Kumar (2007) evaluated firm performance using Tobin's Q. Hutchinson and Gul (2004) assessed corporate governance significance by using return on equity (ROE). Weir and Lang (2000) and Erhardt et al., (2003) opted for return on assets as a performance measure, while Francoeur et al., (2008) focused on abnormal returns. Smith et al., (2006) utilized four measures which are gross profit margin, contribution margin to net sales, operating income to net sales, and post-tax net income to net sales. These varying accounting measures were employed to assess the contribution of corporate governance to firm performance across different studies. However, the extant literature indicates the utilization of different performance measures, potentially affecting the results of the relationship between form performance and corporate governance.

Some studies use firm value in the pace of firm performance. Firm value within the context of corporate governance embodies the overall worth and perceived market value of a company, reflecting not only its financial standing but also the effectiveness of its governance structures and practices (Bebchuk & Fried, 2003). It serves as a crucial indicator for shareholders, investors, and stakeholders interested in assessing the company's performance, growth prospects, and the effectiveness of its governance mechanisms (La Porta et al., 2002). It denotes the current market valuation and is an amalgamation of investors', stakeholders', and market participants' perceptions regarding a company's future cash flows and performance (Damodaran, 2012; Copeland et al., 2020). Firm valuation is approached through several dimensions. For instance, market value represents a company's market capitalization, calculated by multiplying its share price by the total outstanding shares

(Damodaran, 2012). Intrinsic value reflects the fundamental worth of a company based on future cash flows, growth potential, risks, and other quantitative and qualitative factors. It is often estimated through valuation models like discounted cash flow analysis (Copeland et al., 2020). Book value signifies the net asset value as per a company's balance sheet, derived by subtracting total liabilities from total assets. This represents the historical or accounting-based value of a company (Copeland et al., 2020). Perceived value involves the subjective assessment of a company's worth by stakeholders, investors, and the market. It is influenced by factors like brand reputation, management quality, governance practices, and market sentiment (Copeland et al., 2020). Social and environmental value: Increasingly, considerations of a company's social and environmental impact contribute to its overall value. Aspects such as sustainability practices, corporate social responsibility, and ethical conduct are recognized as dimensions impacting firm value (Muller et al., 2012; Eccles et al., 2011).

Debates surrounding the meaning and measurement of firm value are rooted in differing perspectives on what constitutes a company's true worth and how best to assess it. One point of contention involves the firm's primary objective, whether it should solely aim at maximizing shareholder wealth or consider broader stakeholder interests in its operations (Freeman & Reed, 1983; Jensen, 2002). Another controversy revolves around the measures used to gauge firm value. While traditional financial indicators like Tobin's Q, market-to-book value (MBV), and Price/Earnings (P/E) ratios are widely used, there is an ongoing debate about whether incorporating non-financial indicators such as corporate reputation or brand value would provide a more comprehensive evaluation (Barney, 1991; Lev, 2001). Furthermore, there is a dispute regarding the period for assessing firm value. Some argue for a focus on short-term financial performance indicators like quarterly profits, while others advocate for considering long-term sustainability and growth prospects as more critical (Porter & Kramer, 2011; Eccles et al., 2012).

To address these controversies, the literature suggests various solutions. Integrated reporting frameworks that combine financial and non-financial indicators have been proposed to offer a more holistic view of firm value (Eccles et al., 2011). The stakeholder value perspective urges the consideration of diverse stakeholders' interests beyond financial performance (Freeman & Reed, 1983). Moreover, emphasis was placed on strategies for long-term value creation, focusing on sustainable practices, innovation, and corporate social responsibility (Porter & Kramer, 2011). To capture various aspects of firm value comprehensively, scholars

advocate for employing multiple measures rather than relying on single measures (Barney, 1991).

2.3.5 Relationship between Corporate Governance and Firm Performance

In their influential study, Gompers, et al., (2003) examined the relationship between corporate governance and equity prices. They constructed a governance index (G-index) based on 24 unique governance rules to proxy for the level of shareholder rights at large firms during the 1990s. Their key finding was that firms with stronger shareholder rights had higher firm value, higher profits, lower capital expenditures, and fewer corporate acquisitions. The study findings indicated that the value of effective corporate governance, reflected in a lower G-index, is associated with higher equity prices. Furthermore, they identified a strong correlation between the G-index and various indicators of firm performance. These results support the proposition that well-governed companies exhibit superior performance compared to poorly governed counterparts. Gompers et al., (2003) results have been supported by numerous studies such as Adjei and Adjei (2016) who found that the GIM index had statistical and significantly more power in explaining the variability in firm value as measured by Tobin's Q. Core et al., (2006) found that G-index consistently demonstrated a negative and meaningful relationship, providing empirical support for the hypothesis that firms with weaker shareholder rights exhibit poorer subsequent operating performance.

Although Gompers et al., (2003) stands as a seminal work in exploring the intricate relationship between corporate governance and equity prices, it has been criticized for limitations, encompassing causality, sample specificity, endogeneity, measurement subjectivity, market efficiency, omitted variables, and geographic limitations. Gompers et al., (2003) concentrate on U.S. firms, posing a limitation in its applicability to global contexts. Acknowledging these constraints allows for a more comprehensive interpretation of the findings and underscores the need for further research to delve into the multifaceted dynamics of corporate governance and its impact on firm performance.

Although Core et al., (2006) provided empirical support for the hypothesis that firms with weaker shareholder rights exhibit poorer subsequent operating performance just as was the case with Gompers et al., (2003), it is criticized for falling short of proving causation, and thus leaving room for the influence of other unobserved factors. Furthermore, the focus on

large firms during a specific decade might not generalize to smaller companies or different periods, limiting the study's external validity. These limitations suggest the need for further research to refine the understanding of the relationship between shareholder rights and operating performance.

Black et al., (2006) investigated the relationship between firm-level governance and market values for Russian firms using a corporate governance index incorporated from six various providers and spanning different segments of the sample period. The study found a statistically strong association between governance and firm market value (proxied by Tobin's q and, in robustness checks, market/book and market/sales) suggesting that stronger corporate governance practices are linked to higher market values of firms operating in Russia. Notably, a five-country study by Black et al., (2014), which also included Russia, yielded similar results regarding the effect of governance on market values. Black et al., (2006) findings to Tobin's Q are supported by other studies (e.g., Gharaibeh & Qader, 2017; Singh et al., 2018; Drobetz et al., (2004); Vintilă & Gherghina 2014; Wang, 2015). However, notable limitations in Black et al., (2006) included large discrepancies between OLS and fixed effects results raising concerns about the reliability of OLS estimates in governance to value studies. This suggests that the ability of a governance index to predict firm market value using OLS estimates may be questionable. Additionally, the finding that firm size, measured by log (assets) and log (sales), was significantly negative implies that growing firms may experience declining Tobin's Q.

Bebchuk (2004) developed an Entrenchment index (E-Index) that gauges the entrenchment level of firms based on six provisions. These provisions consist of four constitutional measures hindering majority shareholder influence and two takeover readiness measures to thwart hostile takeovers. The study revealed a moderate upward trend in the E-Index among U.S. firms from 1990 to 2002, with a notable correlation between the Entrenchment index and the Governance index (G-Index). Despite some variations for large companies, there were no significant differences for firms in or out of the S&P 500 or for young and old firms. Regression results consistently demonstrated a negative and significant coefficient on the E-Index suggesting a robust correlation between the entrenching provisions and lower firm value. Further regression analyses for each entrenching provision individually reaffirmed the negative and statistically significant relationship between each provision and firm value. Additionally, the study found a negative correlation between the firm's Entrenchment index

score in 1990 and lower firm valuation during 1998-2002. Bebchuk et al., (2004) findings have been further confirmed by Bhagat and Bolton (2007) who found that stock ownership of board members, and CEO-Chair separation are significantly positively correlated with better contemporaneous and subsequent operating performance. A notable limitation of the study is its focus on U.S. firms, potentially limiting the generalizability of findings to a global context, and the predominant use of correlation analyses which leaves room for further exploration of causality and the intricate dynamics underlying the observed relationships.

From the emerging markets perspective, Ntim (2009) delved into analyzing the effect of corporate governance on firm performance in South Africa. Contrary to other studies that used either the compliance model (e.g. Bhagat et al., 2008; Brown and Caylor, 2004; Core et al., 2006; Da Silva and Leal, 2005; Gompers et al., 2003; Haat et al., 2008) or the equilibrium model (Akinsokeji et al., 2022; Chen et al., 2005; Lee and Chen, 2011; Moardi et al., 2020; Tosi and Gomez-Mejia, 1989; Vefeas, 1999a) the study used both models to measure corporate governance.

The compliance-index model results reveal a robust, statistically significant, and positive association between the internal corporate governance quality of sampled firms and their financial performance, whether assessed through accounting (return on assets) or market (Tobin's Q) measures. The compliance model results were consistent with the results of other studies (e.g., Gompers et al., 2003; Klapper and Love, 2004; Muniandy and Hillier, 2015), among others. Ntim (2009) suggests that a firm's internal corporate governance structures significantly and positively affect financial performance. However, the equilibrium-variable model yielded mixed results. For instance, board diversity, frequency of board meetings, and the establishment of most board committees, excluding the nomination committee, exhibited no impact on financial performance. Board size was positively associated with Tobin's Q but negatively related to return on assets (ROA). CEO duality shows a positive relation to ROA but a negative one to Q-ratio. Director share ownership's impact on ROA is insignificant but positively associated, while Tobin's' Q-ratio, is significant but negatively related. Notably, the findings do not support the non-linear director share ownership-financial performance association reported in prior research. However, the study acknowledges certain limitations, including data constraints that may not capture all governance nuances, the influence of contextual factors unique to the South African environment, and challenges related to addressing endogeneity issues such as simultaneity and reverse causality. These limitations

imply that the results can only be interpreted in the context of South Africa since the sample of firms was from the JSE.

Varshney et al., (2012) explored the correlation between corporate governance and the performance of 105 Indian companies. The study used a corporate governance quality index consisting of the internal governance mechanisms composed of board structure and ownership structure, while the institutional quality mechanisms included were market for corporate control and product market competition. Findings from the study led to the conclusion that a positive relationship exists between corporate governance based on the corporate governance index used and firm performance when the performance is measured using economic value added (EVA). These findings concur with those of Bacidore (1997); Prusty, (2013); and Omneya et al., (2021) who established that corporate governance positively affects EVA. However, the study acknowledges some limitations such as the use of a short period of 2 years which may have affected the study's outcome since the effect of corporate governance can take a long time to be reflected in financial outcomes. In addition, the results can only be interpreted in the context of India since the sample of firms was from India.

Abdoush et al., (2019) explored the link between corporate governance and the performance of UK insurance firms throughout the global financial crisis by using a unique dataset covering a range of insurance firms and employed various regression models to scrutinize hypotheses and address endogeneity concerns. Findings from the study showed a significant positive relationship between corporate governance as measured by the UKCGI, and the efficiency score. This finding was consistent with agency theory and the previous literature (Diacon and O'Sullivan, 1995; Core et al., 1999; Klapper and Love, 2004; Gupta and Sharma, 2014; and Yoo and Jung, 2014) suggesting that corporate governance has a role to play in monitoring and minimizing agency conflicts between shareholders, managers, and other stakeholders.

However, the study has limitations that could have impacted its findings. For instance, the exclusive focus on the UK insurance industry could have led to potential sample bias, data quality and availability issues, and limited exploration of certain governance mechanisms. Endogeneity remains a challenge, and the study acknowledges the potential influence of publication bias. Recognizing and addressing these limitations is crucial for fortifying the

robustness of future research in this domain, contributing practical implications for stakeholders navigating the complexities of the insurance sector in challenging economic climates (Abdoush et al., 2019).

Among the recent studies that have explored the relationship includes the study of Bui & Krajcsák (2023). The study investigated the impacts of corporate governance on firms' performance in Vietnam from 2019 to 2021. The research addresses potential dynamic endogeneity in CG research by using the generalized system methods of moments to analyze the influence of CG practices on both accounting information (ROA and ROE) and market performance (Tobin's Q and stock price volatility. The findings show a positive relationship between transparency disclosure and financial performance and a positive correlation between CG and company size. This is consistent with the characteristics of the Vietnamese stock market during the research period and is in line with previous studies (Lang & Lundholm, 1996; Leuz & Verrecchia, 2000). In addition, results revealed that the shareholder rights index and the board responsibility had a weak positive relationship with ROE, consistent with the findings of prior research (Connelly et al., 2012; Leuz & Verrecchia, 2000). The finding suggested that companies with good shareholder rights and a responsible board of directors tend to have higher book-based financial performance (ROE) levels. Like in Guluma, (2021), the study failed to find a relationship between the shareholder rights index and board responsibility and financial performance. Although the study contributes to understanding the relationship between corporate governance and firm performance in the Vietnamese context, some limitations exist in the study. Such limitations include the study being specific to the Vietnamese and Chinese markets which limits the generalizability to other countries or regions. Also, the study relies on available data for the specified period (2010 to 2018), which may not capture all relevant factors.

2.3.6 Summary of Weaknesses in Previous Corporate Governance and Firm Performance Studies

Based on the above literature review, several issues need to be highlighted. They are issues of endogeneity, measurement of corporate governance, disparities findings, omitted variables, sample selection bias, context-specific findings, data quality and availability, publication bias, dynamic effects, heterogeneity, and non-financial performance measures. Endogeneity refers to the mutual influence between corporate governance and firm performance, making it

challenging to establish causality. An increasing body of literature highlights endogeneity as a crucial factor contributing to inconclusive findings on the governance-performance relationship. Studies addressing endogeneity, such as Pham et al., (2011), Schultz et al., (2010), and Wintoki et al., (2012), fail to identify a significant relationship between governance and firm performance. Endogeneity issues arise as firms may decide their optimal governance structure based on past performance or the bargaining process between management and the board (Hermalin and Weisbach, 2003) or due to opportunity costs associated with outside directors' expertise (Bozec, Dia, & Bozec, 2010; Harris & Raviv, 2008).

One way of minimizing this problem is using robust econometric techniques such as instrumental variables or panel data methods to address endogeneity (Baker, 2021) and to factor in the model control variables that are deemed to affect the relationship between corporate governance and firm performance, and the relationship between corporate governance and economic growth. Not doing so would lead to the wrong conclusion (Black et al., 2006a, Roberts & Whited, 2013). The current study tried to minimize the endogeneity problem through dynamic panel data modeling and control variables at the firm and macro levels.

The second issue is the measurement of corporate governance by past studies. As seen in the literature review, some studies opted to use indexes while others used single corporate governance mechanisms as measures of corporate governance. Several studies suggest that conflicting results are due to measurement inaccuracies. Governance is recognized as a multifaceted and intricate concept and this poses challenges in defining and establishing a comprehensive theory regarding which indicators to employ, making the creation of reliable and valid governance measures quite daunting. Larcker et al., (2007) contend that relying on individual governance measures or summative governance indexes, which amalgamate various indicators, might lead to misleading conclusions. Li et al., 2017 suggest the use of multiple governance indicators and consider context-specific measures relevant to the industry or country, enhancing the robustness of the analysis. The current study minimizes measurement problems by using a contextualized corporate governance index.

The other issue that is common in past governance studies is the disparities in the findings of corporate governance studies. Zattoni et al., (2017) attribute the disparities in empirical

findings regarding the governance-performance link to the specific national and institutional quality across different countries. They highlight those variations in the financial system, education, training, control systems, state intervention in the economy, and the quality of informal institutions can either amplify or diminish the impact of corporate governance practices on firm performance. The current study has addressed this issue in two ways. The first one is through constructing a context-based corporate governance measure, and by including institutional quality attributes as a moderating variable.

The third issue concerns omitted variables bias where economic factors predicting both governance and performance are inadvertently overlooked by a researcher. For instance, firms with high growth opportunities might adopt better governance practices to lower capital costs, yet their high growth opportunities could skew firm value and create a misleading correlation between governance and firm value (Klapper & Love, 2004). This study has tried to minimize this problem by introducing macro and micro variables in the model to improve the quality of the study findings. In addition, the use of dynamic panel data analysis (GMM) allows the researcher to either use a random or fixed effects model to inadvertently resolve the problem of omitted variables.

On the issue of causality, the relationship between how a company is governed and its financial worth is far from a simple cause-and-effect equation. Instead, it is an intricate two-way relationship, where both governance and firm value influence the other in a continuous feedback loop (Siddiqui, 2015). One way of dealing with causality issues is to conduct longitudinal studies over an extended period. This allows observation of changes in corporate governance practices and their impact on firm performance. By tracking these changes over time, it becomes possible to establish causal relationships. This study is a longitudinal study as it covers a study period of 10 years. However, the study did not track the changes over time. However, the research assessed the long-term and short-term effects of corporate governance on firm performance.

Another problem that has been common in past governance studies is context-specific findings. This arises when research outcomes are narrowly applicable to a specific context (Bui and Krajcsák, 2023) such as a country or business sector and, hence limiting their generalizability. This study has addressed this problem by using randomly selected firms from four different geographical locations (the USA, the UK, India, and South Africa). On

the issue of data quality and availability, the study ensured that precise definitions for key variables related to corporate governance (e.g., board composition, executive compensation) were clearly understood by the data collection team to ensure consistency in the process of data capture. The researcher validated the data sources (financial statements, regulatory filings) against other sources including *Datastream* and *Bloomberg* for accuracy and completeness. Only audited and published financial and proxy statements were used as data sources.

2.3.7 Corporate Governance and Economic Growth: Definition and Measurement

Economic growth, defined as the sustained increase in the real output of goods and services produced by an economy over time, is a crucial indicator of a country's economic health (Barro, 1999). This growth is commonly measured by the percentage change in the Gross Domestic Product (GDP), reflecting the total value of all goods and services produced within a nation's borders (Mankiw et al., 1992). Scholars like Acemoglu and Robinson (2012) delved into the determinants of economic growth, emphasizing the role of institutions and political factors in shaping a nation's prosperity. Economic growth, a crucial indicator of a nation's prosperity, is commonly assessed through various methods, with Gross Domestic Product (GDP) standing out as the predominant metric. GDP reflects the total market value of all final goods and services produced within a country's borders during a specific period. The calculation of GDP employs three primary approaches: the production or output approach, the expenditure approach, and the income approach (Mankiw et al., 1992).

The concept and measurement of economic growth have been subjects of ongoing debates within economic literature, leading to several controversies that Scholars have sought to address. Firstly, critics argue that Gross Domestic Product (GDP) as a measure oversimplifies economic growth by focusing solely on market transactions. This exclusive focus neglects non-market activities, environmental sustainability, and income distribution. To address this, scholars have proposed alternative indicators like Gross National Happiness (GNH), Human Development Index (HDI), or Genuine Progress Indicator (GPI) to offer a more holistic perspective on economic well-being (Stiglitz et al., 2009).

A second controversy involves the debate over whether economic growth necessarily translates into an improved quality of life for all citizens. The literature emphasizes the need for broader indicators, including social factors, health, education, and income distribution, to

comprehensively gauge the impact of economic growth on citizens' well-being (Sen, 1999). Income inequality is another point of contention. Critics argue that economic growth might exacerbate inequality. To mitigate this, scholars stress the importance of inclusive growth, wherein policies address disparities in income distribution and social inclusion to ensure a broader segment of the population benefits (Galbraith, 2012).

Other concerns relating to the measurement of economic growth emphasize the need for a nuanced understanding and multidimensional evaluation. Scholars address the environmental impact of growth, advocating for sustainable development that integrates environmental considerations and green technologies (Dasgupta, 2001). Also of concern is the evolving impact of technological progress on employment and income distribution prompts ongoing exploration and policy design (Rodrik, 1997). Lastly, persistent concerns include the tension between short-term economic goals and long-term sustainability, urging a balanced approach. To address this, literature suggests policies focusing on skill development, retraining, and social safety nets to navigate the challenges posed by technological advancements (Brynjolfsson & McAfee, 2014). Additionally, the tension between short-term economic goals and long-term sustainability is acknowledged. Based on the above unresolved matters, scholars call for a balanced approach that considers all aspects that sustainable development (Sachs, 2015).

2.3.8 Synthesis of the Relationship between Corporate Governance and Economic Growth

Corporate governance plays a key role in economic performance since it affects the investment returns of suppliers of capital. Corporate governance systems should provide institutional and market systems that allow management and board members of companies to maximize shareholder value (Tiwari, 2010). It is true that if the domestic markets of an economy (goods and services, labor, money, and capital markets) are efficient, it is possible to achieve the maximum expected growth rate since efficiency in domestic market systems also means efficiency in resource utilization. Having analyzed how static and dynamic corporate governance impacted economic growth in several companies, Tiwari (2010) found a significant and negative relationship between economic growth and corporate governance performance. In addition, the study found that physical capital and overall government

expenditure positively impacted economic growth, whereas human capital had a significant and negative impact on economic growth.

Governance systems exist to promote efficiency in the utilization of resources and accountability from the stewards of such resources. Corporations adopt internationally accepted governance systems because they may not achieve their objectives such as attracting investments if they do not do so. Most states try to adopt the international governance system because they want strong economies and business probity (Claessens, 2006). OECD's (2012) report further indicates that corporate governance is critically important in countries with low- and medium-income levels.

Pablo et al., (2008) investigated the correlation between the stock returns of companies that practiced good governance and how they affect economic growth. Findings indicate that firms that practiced good governance were more sensitive to economic growth than those that did not have good governance systems. In addition, the study found that companies that practiced good governance performed better and benefited more from economic expansion (growth) as GDP growth results in firms' added output value (goods and services). Eventually, this leads to firm profitability, high stock returns, and improved macroeconomic performance (Pablo et al., 2008).

To determine whether corporate governance had ‘real’ effects on economic performance, De Nicolò et al., (2008) constructed a corporate governance quality index to measure the evolution and quality of corporate governance across countries from 1994 to 2003. They then used the findings relating to the quality and evolution of corporate governance to assess their effect on output growth, productivity growth, and investment at the macroeconomic level. They found that the quality of corporate governance has a positive and significant impact on economic activities. These activities included per capita gross domestic product, total factor productivity growth, and the proportion of investment to GDP. When the same model was extended to measure the effect of governance quality on sales growth and opportunities for growth for firms categorized by industry, results showed a positive relationship for industries that depended on external financing.

Maune (2017) analyzed the effect of six World Bank institutional quality variables (control of corruption, political and absence of violence or terrorism, stability, government effectiveness, the rule of law, voice, and accountability, and regulatory quality) on GDP and found a

significantly positive relationship between GDP and some governance variables including political stability and absence of violence, the rule of law, and voice and accountability. He also found a negative correlation between GDP and governance variables of control of corruption, government effectiveness, and regulatory quality. Maune (2017) did not incorporate internal governance mechanisms in the analysis.

Maher and Andersson (2000) examined the strengths, weaknesses, and economic consequences of the many corporate governance arrangements in OECD countries. The paper focused on establishing the relationship between different governance mechanisms (executive remuneration systems, concentrated ownership, the market for takeovers/ corporate control, cross-equity holdings/shareholdings) and how they affected firm performance and economic growth. The study found that the corporate governance framework could prohibit stock market development, research and development, innovative capability, and the growth of active small and medium enterprises (SMEs) which in turn negatively affect economic growth.

The debate on causality between economic growth and corporate governance is a complex issue in economics and business studies. Scholars have (e.g., Braendle et al., 2005; Matashu and Musvoto, 2022; Paredes, 2005; Tseng and Wu, 2016) examined whether economic growth influences corporate governance practices or if effective corporate governance is a prerequisite for sustained economic development. The relationship between these two variables has implications for business sustainability, investor confidence, and overall economic stability. While the direction of causality is challenging to establish definitively, some research suggests a bidirectional relationship. For instance, Claessens et al., (2000) found evidence of a two-way relationship between corporate governance and economic development, emphasizing the interactive nature of these variables.

One perspective suggests that economic growth positively influences corporate governance practices. As economies expand, companies may experience increased scrutiny from stakeholders, leading to a demand for better governance structures. A growing economy may provide firms with the resources and incentives to invest in corporate governance mechanisms, such as improving transparency, accountability, and board independence (La Porta et al., 2000; Shleifer & Vishny, 1997). Conversely, an alternative viewpoint argues that strong corporate governance is essential for fostering economic growth. Effective corporate

governance is seen as a mechanism to attract investment, mitigate agency problems, and ensure that companies operate efficiently. According to this perspective, well-governed firms are more likely to make sound financial decisions, which can contribute to economic stability and growth (Demsetz & Lehn, 1985; Djankov et al., 2008).

Empirical studies (La Porta et al., 2000; Shleifer and Vishny, 1997) examining the causality between economic growth and corporate governance have utilized various methodologies, including cross-country comparisons and event studies. These studies often investigate the impact of changes in corporate governance practices on economic performance or vice versa. Advocates of the viewpoint that good governance leads to growth contend that robust corporate governance practices, characterized by transparency, accountability, and shareholder protection, establish an environment conducive to sustainable economic growth. Several underlying mechanisms support this belief. Firstly, efficient allocation of resources is deemed crucial for growth, and effective governance frameworks, featuring independent boards and strong internal controls, minimize wasteful spending and misallocation of funds, optimizing resource utilization (Claessens & Habib, 2014). Additionally, sound governance practices are argued to mitigate operational and financial risks, fostering investor confidence through reliable financial reporting, strong risk management systems, and responsible leadership (Beck & Levine, 2004). Furthermore, good governance is posited to cultivate a culture of innovation and entrepreneurial spirit, enhancing a company's competitiveness, and contributing to overall economic growth by facilitating transparent communication and stakeholder engagement (La Porta & Lopez-de-Silanes, 1999).

The above-preceding review shows that corporate governance affects economic growth through institutional strengthening, attracts investors and financing, lowers the cost of equity, and leads to efficiency in the allocation of resources. For this reason, the current study sought to evaluate the relationship between corporate governance and economic growth, and how institutional quality moderates the relationship between the two variables.

Chapter Summary

This chapter presented the theoretical and empirical literature that underpins the nexus between corporate governance, economic growth, and firm performance. It also reviewed the extant literature related to corporate governance, institutional quality, and firm performance. The next chapter develops the hypotheses and the research conceptual framework.

CHAPTER THREE

RESEARCH HYPOTHESES AND

CONCEPTUAL FRAMEWORK

3.1 Introduction

The previous chapter presented a review of empirical literature related to corporate governance, institutional quality firm performance, and economic growth. The current chapter aims to develop and research hypotheses and the conceptual framework for the study. The chapter is structured as follows. Section 3.2 presents the process of hypothesis development. Section 3.3 presents the conceptual framework. The chapter summary closes the chapter.

3.2 Hypothesis Development

3.2.1 Compliance with Codes of Corporate Governance in Sample Emerging and Developed Economies

The codes of corporate governance in different countries serve as the frameworks to ensure transparency, accountability, fairness, and responsible decision-making within organizations. The development process of corporate governance codes often involves a collaborative effort among various stakeholders, including regulators, industry experts, and institutional investors, resulting in guidelines tailored to the specific needs and characteristics of the local business environment. For instance, in South Africa, the King reports on corporate governance were developed by the King Committee (IoDSA, 2016). In India, corporate governance codes are found in the Listing Obligations and Disclosure Requirements Regulations of 2015, and the Companies Act, of 2013 (SEBI, 2015). The main sources of the UK Corporate Governance Code are embedded in the UK Corporate Governance Code (2018 (Boyle and Rose, 2019), and The Companies Act 2006 while the USA corporate governance codes are embedded in the Sarbanes-Oxley Act of 2002 and the Securities and Exchange Commission (SEC) regulations (Johnson & Sides, 2004). The main sources of input of codes of corporate governance are the OECD Principles of Governance and the International Corporate Governance Network (ICGN).

Previous research on codes of corporate governance focused on evaluating their effectiveness in different organizational contexts such as listed firms (Abor 2007; Aduda et al., 2013; Bebchuk et al., 2004; Niresh and Velnampy 2014), examining their impact on firms performance (Abdoush et al., 2016; Arora and Bodhanwala, 2018; Bozec and Bozec 2012; Javaid and Saboor 2015), investor protection (La Porta et al., 1999), and market integrity (Core et al., 2006). Studies also explored the adoption and implementation of these codes across industries and countries, identifying the factors influencing their successful application and the challenges encountered during the implementation process (Hslao, 2007). In addition, comparative analyses have been conducted to assess the similarities and divergences in corporate governance codes across various regions and their implications for organizational behavior and market outcomes (Ali, 2018; Franks & Mayer 1997; Johanson & Østergren 2010).

There are differences in the codes of corporate governance and their effectiveness between emerging and developed markets because of different legal, regulatory, and institutional frameworks, and cultural and economic factors in these two environments. The corporate governance landscape in emerging economies is characterized by challenges related to the effectiveness and predictability of the rule of law, which leads to a perception of a weak governance environment (Mitton, 2002). Formal institutions such as laws and regulations related to accounting, information disclosure, securities trading, and their enforcement may be absent, inefficient, or not functioning as intended (Young et al., 2008) in emerging and developing economies. The standard corporate governance mechanisms receive limited institutional support in emerging economies (Peng 2003).

Furthermore, informal institutions, including relational ties, business groups, family connections, and government contacts, play a more significant role in shaping corporate governance practices in these emerging economies (Peng & Heath 1996; Yeung, 2006). The preceding scenario regarding corporate governance in emerging and developing markets offers a compelling backdrop for evaluating the adherence to corporate governance codes across both emerging and developed markets.

Compliance with set corporate governance codes is associated with benefits such as enhanced transparency at the firm level. Corporate governance mechanisms such as external auditing, and publication of annual and financial reports on a timely basis ensure that relevant

information is disclosed to shareholders, stakeholders, and the public. The level of transparency makes companies more attractive to investors and have better access to capital (Isaksson & Çelik 2013; Mande et al., 2012). Complying with the codes of corporate governance may result in improved firm-level accountability depending on board is independent, the roles of the chairperson and the CEO are separate, and ownership is sparse. Thus, corporate governance mechanisms hold company management accountable for their decisions and actions. Such accountability reduces the risk of fraud, mismanagement, and unethical behavior (Short et al., 1999) and leads to better decision-making. Corporate governance mechanisms such as diverse boards in terms of gender, age, education, expertise, and ethnicity may result in informed decision-making and better strategic choices (Sun et al., 2020).

Compliance with the corporate governance framework fosters integrity in decision-making, fair treatment of stakeholders, and responsible business practices that foster stakeholder confidence. A company with strong governance systems is seen as reliable and ethical (Huse, 2007) and tends to focus on long-term sustainability rather than short-term gains which benefits both the company and society (Isaksson & Çelik 2013). Investors prefer companies that comply with governance as this leads to better access to capital markets and lower borrowing costs (Isaksson and Çelik, 2013, Mande et al., 2012; Melnic and Juravle, 2020) and reinforces their confidence, contributing to economic growth (Classens, 2006). Complying companies can also set a positive example for others, potentially fostering a culture of governance best practices that encourage investment (Muhammad & Roudaki, 2017).

Although corporate governance compliance has benefits as outlined above, it also bears some costs. Thus, corporate governance compliance is financially costly as it requires resources, such as hiring independent directors, conducting audits, setting up governance systems, and sustaining them (Chhaochharia & Grinstein, 2007). These costs can be significant, especially for small companies. Relative to their size, smaller firms bear higher costs of complying with corporate governance codes/rules as they might find it harder to attract qualified independent directors to their boards and comply with director independence (Holmstrom & Kaplan 2003). The opportunity cost of compliance arises from time spent on setting up corporate governance systems and processes while that time could be used for other business activities.

Often governance indices are used to assess compliance with codes of corporate governance and to compare corporate governance practices across companies and regions. However, notable weaknesses commonly cited about indices include subjectivity, as the construction involves selecting, weighing, and scoring governance attributes, potentially introducing biases, and impacting objectivity in assessments (Hermalin & Weisbach, 2003; Gompers et al., 2003). In addition, governance indices may prioritize formal compliance and structure over the substantive effectiveness of governance mechanisms, potentially failing to capture the true impact of governance practices on firm performance and stakeholder interests (Mallin, 2007; Bebchuk & Hamdani, 2009).

Commercial indices are available in the market and could be used to assess compliance with corporate governance in different countries. However, they also have weaknesses. For example, Bozec and Bozec (2012) show that these indices do not allocate equal weight to each governance variable. Instead, they vary the weighting of each governance mechanism based on their discretion to determine the suitable weights. Others allocate higher weight to factors such as board structure and CEO compensation systems than takeover defense mechanisms. Aguilera and Desender (2012) posit that some commercial governance ratings rank firms relative to other firms in the same industry, geographic area, or market.

Academic indices are also common but one of their weaknesses is validity. For instance, Spamann (2010) re-examined the anti-director rights index (ADRI) and made 43 corrections out of the 46 countries covered. Spamann (2010) failed to support the three significant claims of the original ADRI (Aguilera et al., 2011; Aguilera & Desender, 2012). The G-index was criticized for not predicting superior results regarding firm performance (Core et al., 2006). Also, this index showed a weak association between corporate governance and equity market value (Larcker et al., 2007). Johnson et al., (2009) established that the G-index does not generate abnormal returns when the standard asset-pricing model is modified for clustering companies according to industry. Furthermore, the G-index is criticized for being USA-biased (Aguilera & Desender, 2012). Furthermore, other academic indices were created to address the objectives of a specific study, under specific conditions. Such indices may not be used in other studies because of the different periods, objectives, and contexts, implying that other studies including the current study must construct their indices to achieve their objectives.

Compliance with codes of corporate governance is supported by agency and institutional theories. From the institutional theory perspective, organizations conform to the codes of corporate governance not only because of rational decision-making but also due to the influence of social and institutional pressures (DiMaggio & Powell, 1983). The institutional context is fundamental for comprehending corporate governance systems and the influence wielded by dominant institutional entities within these systems, as robust national institutions designed to safeguard investors are closely associated with enhanced corporate governance practices and favorable financial results (Zattoni et al., 2020). From the agency theory perspective, companies comply with corporate governance codes primarily as a means to mitigate agency conflicts between managers and shareholders (Kao et al., 2004; Turnbull, 1997). To align the interests of managers with those of shareholders and mitigate agency conflicts, companies adhere to corporate governance codes.

Based on the above analysis the following is the hypothesis to be tested:

> ***H_1: Companies operating in both emerging (India and South Africa) and developed (the UK and the USA) markets demonstrate a significant level of compliance with their respective country's corporate governance standards.***

The key variable in this hypothesis is the internal corporate governance compliance score (ICGCS) which is the score constructed from each sample country's codes of corporate governance. The companies cooperate governance compliance is then measured against this country's governance score to assess their level of compliance. It measures the firm's level of compliance relative to the constructed governance score. The above hypothesis relates to the first research objective and its corresponding research question that sought to establish whether companies listed in emerging and developed markets vary in their adherence to corporate governance best practices as defined by their respective countries' governance codes. Testing this hypothesis helps answer the question about the varying levels of compliance with corporate governance in emerging and developed countries.

3.2.2 The Relationship between Internal Corporate Governance Compliance Score and Firm Performance

Various corporate governance mechanisms firm put in place to comply with corporate governance requirements and derive compliance benefits. The mechanism includes the installation of a board of directors, alignment of incentives, ownership structure, separation of roles, and audit committees (e.g., Jensen & Meckling, 1976; OECD, 2004). These

governance mechanisms are critical in aligning the interests of shareholders and managers, mitigating the agency problem, and resulting in higher firm performance if implemented effectively (Aguilera, 2015; Misangyi & Acharya, 2014). The board of directors is responsible for setting the organization's strategic direction, providing oversight, and ensuring accountability (Erhardt et al., 2003; Rediker & Seth, 1995). The incentive alignment hypothesis argues that a shareholder-manager who shares returns with outside shareholders can be enticed to maximize his value by not engaging in morally hazardous behavior (Morck & Vishny, 1988). This is because, as managers increase their proportion of ownership in a company, they become motivated to maximize firm value by ensuring that their interests become congruent with those of outside shareholders (Vintilă and Gherghina, 2014) thereby resolving agency problems. Ownership concentration or the presence of large shareholders assumes that dispersed shareholding in large companies increases agency problems and therefore ownership concentration mitigates agency costs (Morck and Vishny, 1988; Turki and Sedrine, 2012) due to the efficient monitoring principle (Hu & Izumida, 2009).

The separation of the roles of CEO and board chair (duality) helps in maintaining a system of checks and balances, preventing excessive power concentration, and promoting greater accountability (Jackling & Johl, 2009; Peng et al., 2010). The presence of audit committees is considered a governance mechanism due to its vital role in ensuring the integrity of financial reporting and compliance with regulatory requirements. An audit committee oversees the internal control processes, risk management, and the independence and qualifications of external auditors, thus bolstering the credibility of financial information (Amer et al., 2014; Aunu et al., 2014; Bansal & Sharma 2016).

The question that has garnered significant attention in prior research pertains to the potential impact of corporate governance mechanisms on firm performance. However, the findings regarding this relationship have been subject to inconsistencies. While some studies have identified a positive correlation between corporate governance practices and firm performance (e.g., Bhagat and Black, 2001; Bozec 2005; Davidson et al., 1996; Eisenberg et al.,1998; Haniffa and Hudaib, 2006; Iqbal, 2006; Abdoush et al., 2016; Al-Malkawi et al., 2014; Asgari, 2015; Berglund, 2020; Black et al. 2017; Gompers et al., 2003; Kapil and Mishra, 2019; Lan and Varottil, 2015; Liljeblom and Maury 2016; Mardnly et al., 2018; Ntim, 2009; Ozsoz et al., 2014; Drobetz et al., 2004; Brown and Caylor 2006, Mohanty, 2003, Black et al., 2006), others have reported a negative association (e.g. Chhaochharia and

Grinstein 2007; Bebchuk and Weisbach, 2010; Kiruri and Olkalou 2013). Additionally, there are studies (e.g. Elsayed, 2007; Daines et al., 2010; Aboagye and Otieku, 2010; Pham et al., 2011) that fail to establish any discernible relationship, while yet others yield mixed results (e.g., Hambrick et al., 2015; Misangyi and Acharya, 2014; Munisi and Randøy, 2013; Al-Manaseer, 2012; Ammann et al., 2011b; Bhagat and Bolton 2008), further highlighting the complexity of this relationship across different contexts and methodologies.

The reasons for the disparity in findings around the relationship between corporate governance and firm performance are due to the different measurement models to test the relationship. For example, some studies used the equilibrium model (Haniffa and Hudaib, 2006; Davidson et al., 1996; Bozec, 2005; Iqbal, 2006 while others (e.g., Bhagat and Black, 2001; Abdoush et al., 2016; Al-Malkawi et al., 2014; Asgari, 2015; Berglund, 2020; Black et al., 2017; Gompers et al., 2003) use the compliance model or both models as it was the case of Ntim (2009). Other issues identified by Zattoni et al., (2017) include the use of specific national and institutional quality across different countries (e.g., financial system, education, training, control systems, state intervention in the economy). In addition, the quality of informal institutions can either amplify or diminish the impact of corporate governance practices on firm performance. The issues of endogeneity, omitted variables, sample selection bias, context-specific factors, data quality and availability, publication bias, dynamic effects, and heterogeneity can lead to disparity in findings as well.

Despite the mixed results, the extant literature supports the proposition that governance tools play a beneficial role in mitigating agency costs. For instance, Pearce and Zahra (1991); Hastori et al., (2015), and Fauzi and Locke (2012) demonstrated that larger board size is associated with a reduction in agency costs while Gul et al., (2012), Singh and Davidson (2003), and Lipton and Lorsch (1992) argued that smaller boards are more effective for firms as they contribute to the containment of agency costs. Rashid (2015); Gul et al., (2012) and Miller (2009) observed a positive impact of independent board members on agency costs. Cai et al., (2015) noted that the presence of an audit committee aids in enhancing managerial efficiency and reducing agency costs. Furthermore, Fauzi and Locke (2012), Sanjaya and Christian (2012), and McKnight and Weir (2009) reported that the existence of remuneration and nomination committees positively influences agency costs. These findings reinforce the notion of a positive association between effective corporate governance and financial performance.

According to agency theory, the implementation of effective corporate governance mechanisms serves to align the interests of managers and shareholders. This alignment, in turn, is anticipated to yield improved firm performance (Jensen & Meckling, 1976). The adherence to strong internal corporate governance practices, as indicated by compliance scores, can be interpreted as an embodiment of the mechanisms put in place to mitigate agency conflicts, thereby contributing to an enhancement in firm performance (Shleifer & Vishny, 1997). However, because of different institutional quality environments, the nature and strength of the relationship between corporate governance and firm performance may differ between emerging and developed markets.

Therefore, based on the preceding discussion, the second hypothesis of this study is stated as follows:

> ***H_{2a} There is a robust and statistically significant positive correlation between corporate governance score and firm performance in emerging (India and South Africa) and developed (USA and the UK) economies.***

From this hypothesis, the key variables are internal corporate governance measured by internal corporate governance compliance score (ICGCS), and firm performance measured by ROE, Tobin's Q, and stock liquidity. The internal corporate governance compliance score (ICGCS) is an independent variable while firm performance is a dependent variable. The higher levels of corporate governance compliance are associated with improved firm performance because companies that adhere to best governance practices, such as transparency, accountability, and ethical conduct, tend to operate more efficiently and effectively (Jensen & Meckling 1976). This can lead to enhanced financial performance, increased investor confidence, and ultimately, higher firm value (Krafft et al., 2014). Additionally, strong governance practices may mitigate risks, reduce agency costs, and foster a positive organizational culture, all of which contribute to improved firm performance (Donadelli et al., 2014). Conversely, poor corporate governance compliance can have detrimental effects on firm performance. Companies with inadequate governance structures may experience higher agency costs, conflicts of interest, and decreased shareholder trust (Linder & Foss, 2015).

Testing the above hypothesis contributes to answering the second research question of this study, which is: what nature of relationship exists between corporate governance compliance scores and firm performance in both short and long terms across developed and emerging

markets? The appropriate regression technique was used to test the relationship between corporate governance and firm performance in emerging markets.

3.2.3 Institutional Quality and Firm Performance

According to North (1981), institutions are a collection of policies that raise individual utility and lessen uncertainty, as well as the economic laws that control social, political, and commercial activity. According to North (1990), institutions define social standards (such as expectations for all forms of interpersonal communication) and, once established, set the advantages and disadvantages of different pursuits. The primary purpose of institutions is to create a secure framework for social interaction, which lowers the level of uncertainty (Chang, 2023).

Institutional quality refers to the attributes of the institutional environment within which businesses operate. It includes elements such as the enforcement of property rights, contract enforcement, the rule of law, and the overall effectiveness and efficiency of the institutional environment (Acemoglu & Robinson, 2010). Institutional quality plays a pivotal role in shaping firms' behavior and performance by creating either a supportive or restrictive business environment (Larcker & Tayan 2015). Robust institutions provide clear rules, safeguard property rights, ensure contract enforcement, and establish a fair playing field, fostering trust in the business environment (Onaolapo and Onakoya, 2020) while weak governance and weak institutional quality can hinder firm performance.

Wallis and North (1986) emphasize that institutions are designed to mitigate transaction costs and enhance transactional efficiency, thereby exerting a significant influence on economic performance. North (1990) contends that high-quality institutions can facilitate increased transactions and lower associated costs, while Ngendakuriyo (2013) advocates for governmental intervention to diminish transaction expenses. This may include the establishment of laws and regulations, the development of transportation infrastructure, and the provision of educational opportunities, among other measures. Consequently, favorable institutional quality contributes to improved corporate performance by minimizing transaction costs (Chang, 2023).

Studies have indicated that firm performance is highly affected by institutional quality (Baumöhl et al., 2019; Baumöhl and Kočenda, 2022; Faruq & Weidner, 2018; Ghoul et al.,

2017). According to Baumohl et al. (2019), institutional quality, which is a crucial component of firm survival, exhibits diminishing returns concerning firm survival. This means that countries with high institutional quality are the least affected, while those with low institutional quality experience are the worst affected. Demir and Hu's (2020) study shows the interaction between institutional quality and firm productivity, and its effects on firm entry, initial sales, firm survival, and post-entry growth for firms. Their results suggest that firms in regions with better institutions in China have a higher chance of market entry and survival.

The relationship between institutional quality and firm performance is informed by the institutional quality theory. The theory emphasizes isomorphism, legitimacy, and rational myths and it is concerned with organizational structures (i.e., rules, schemes, norms, and customs) and how they become recognized as authority to guide social behavior (Scott, 2004)[1]. The institutional theory supposes that institutions or structures bring sense and stability to economic and social behavior (North, 1995) and this is attained when rules of doing things are assumed to be legitimate (Aguilera et al., 2015). Strong institutional quality is often associated with improved firm performance through several channels. For instance, institutional quality is often associated with improved firm performance by providing clear and enforceable rules and regulations, reducing uncertainty and transaction costs for firms (Rajesg and Sen 2017). A stable regulatory environment fosters business confidence and investment, leading to higher productivity and profitability, while institutions that protect property rights and ensure contract enforcement create a favorable environment for business activity (Yasar, Paul, & Ward 2011). Therefore, it is expected that institutional quality will positively affect firm performance in countries where institutional quality is high.

The next hypothesis is stated as follows:

> ***$H_{2(b)}$ The quality of institutional frameworks in both emerging and developed markets exhibits a positive and statistically significant correlation with firms' performance in emerging (India and South Africa) and developed (USA and the UK) economies.***

[1] Scott, W. Richard (2004). Institutional theory. Encyclopedia of Social Theory, George Ritzer, ed. Thousand Oaks, CA: Sage

The key variables in this relationship are institutional quality (IQM) and firm performance. IQM is the independent variable, while firm performance (ROE, Tobin's Q, and stock liquidity are the dependent variables. It is conceptualized that higher institutional quality, characterized by strong legal frameworks, political stability, and effective governance structures, is associated with enhanced firm performance. Strong institutions provide a conducive environment for businesses to operate, ensuring property rights protection, contract enforcement, and reduced regulatory uncertainty (North, 1990). As a result, firms operating within such environments may experience improved access to capital, higher investor confidence, and efficient operations, ultimately leading to better performance metrics such as profitability, growth, and market value (Hall & Jones, 1999).

The hypothesis relates to the third research objective and the corresponding research question both of which assess whether the quality of institutional frameworks affect firm performance in emerging (India and South Africa) and developed (USA and the UK) economies. By testing the hypothesis, the study aims to establish whether there is a positive and statistically significant correlation between the quality of institutional frameworks and firm performance in both developed and emerging economies. This assessment directly provides evidence of how institutional quality affects the overall performance of firms in both emerging and developed economies. The relationship was tested using the appropriate regression model.

3.2.4 Corporate Governance, Institutional Quality, and Firm Performance

Understanding the interplay among corporate governance, institutional quality, and firm performance is essential for grasping the profound influence of effective governance practices on organizational outcomes. As earlier defined, corporate governance refers to the system of rules, practices, and processes by which companies are directed and controlled (OECD, 2004). Effective corporate governance structures help align the interests of stakeholders, including shareholders, management, and other stakeholders, to enhance firm value and performance (Zingales, 1998). On one hand, institutional quality refers to the strength and effectiveness of a country's institutions, including its legal, regulatory, economic, and political frameworks (North, 1999). High institutional quality is characterized by clear property rights, the rule of law, low corruption, and efficient government institutions (DiMaggio & Powell 1983). On the other hand, firm performance encompasses various

metrics that measure the success and effectiveness of a company in achieving its objectives (Chen et al., 2005). Firm performance reflects the outcomes of managerial decisions, operational efficiency, and competitive positioning within the industry.

The relationship among these concepts suggests that strong corporate governance practices and high institutional quality contribute to improved firm performance (Olawale & Obinna, 2023). Thus, effective governance mechanisms ensure that companies operate ethically, transparently, and in the best interests of stakeholders, which can lead to better financial performance (Zingales, 1998). In addition, a favorable institutional environment characterized by sound legal frameworks and regulatory stability provides a supportive backdrop for businesses to thrive and innovate, further enhancing firm performance (Chang, 2023; Yasar et al., 2011).

The two theories that support the relationship between hypotheses are the institutional theory and agency theory. They provide significant support for understanding the relationship between corporate governance, institutional quality, and firm performance, particularly within the contexts of emerging and developed economies.

Based on the above literature, the fourth hypothesis to be tested is:

> ***$H_{2(c)}$ There exists a mutually reinforcing and significantly positive relationship between corporate governance and institutional quality, each independently contributing to firm performance in emerging (India and South Africa) and developed (USA and the UK) economies.***

This relationship suggests that firm performance is affected by the combined effect of corporate governance practices and the quality of institutions within which the firm operates. When corporate governance practices are coupled with high institutional quality, the synergistic effect can further amplify their impact on firm performance. Companies operating in such environments are likely to benefit from enhanced governance compliance supported by robust institutional frameworks, leading to better firm performance. On the contrary, the effectiveness of internal governance mechanisms can be undermined by poor institutional frameworks and limit the company's ability to meet financial goals even when the company has good corporate governance mechanisms. In testing this hypothesis, the dependent variable is firm performance, while the independent variables are internal governance score and institutional quality measure.

Despite its role in reinforcing corporate governance, past governance studies have often overlooked institutional quality when evaluating the relationship between corporate governance and firm performance. While numerous studies have explored the impact of corporate governance attributes on firm performance, such as board size (e.g., Eisenberg et al., 1998; Upadhyay, 2015), independence (e.g., Bradley and Chen 2015), ownership concentration (e.g., Butt and Hasan 2009), and audit committee effectiveness (e.g., Aldamen et al., 2012), the influence of institutional quality on this nexus has been relatively understudied. Institutional quality, encompassing the broader institutional environment within which firms operate, can significantly shape the effectiveness of corporate governance mechanisms, and ultimately impact firm performance outcomes (Haxhi, 2023). For instance, a study analyzing the role of institutional quality, corporate governance, and firm performance in the oil and gas sector in Nigeria highlighted the importance of considering institutional quality alongside corporate governance practices to comprehensively assess firm performance (Olawale & Obinna, 2023).

Furthermore, Daily et al., (2003) argue that the inconclusiveness about the relationship between firm performance and corporate governance may be because most studies have a quest for the end-all corporate governance mechanism, while the reality is that internal corporate governance mechanisms may work together either as substitutes or complements (Misangyi & Acharya, 2014). Despite the role played by institutional quality in enhancing corporate governance outcomes, the majority of studies exclude the institutional quality factors in understanding the corporate governance and firm performance nexus, which depicts an incomplete picture of how governance affects firm performance (Aguilera et al., 2015).

Inadequate governance compliance such as board strengthening, insufficient shareholder protection, or lack of transparency can lead to agency problems, reduced investor confidence, and ultimately corporate performance (Core et al., 2006; Olawale & Obinna 2023). In developed countries, where institutional frameworks are stronger, corporate governance mechanisms are more likely to be aligned with globally accepted best practices, leading to a more direct and positive impact on firm performance. In emerging economies, weaker institutions may result in less effective implementation and enforcement of corporate governance mechanisms, leading to a less consistent impact on firm performance.

The hypothesis relates to the fourth research objective and the corresponding research question both of which aimed to establish whether institutional quality frameworks moderate

the relationship between corporate governance and firm performance in developed and emerging markets. The appropriate regression model was used to test the relationship between firm performance, corporate governance, and institutional quality. The dependent variable is firm performance while the independent variables are corporate governance and institutional quality.

3.2.5 Corporate governance, Institutional Quality and Economic growth

Corporate governance and institutional quality play a significant influence on firm performance and economic growth. Institutional quality refers to the characteristics and attributes of the institutional environment in which firms operate (e,g., Olawale & Obinna, 2023). Institutional quality comprises a range of factors, such as the rule of law, protection of property rights, contract enforcement, and the effectiveness of regulatory frameworks. Institutional quality influences the behavior, decision-making, and performance of firms by providing a conducive or constraining environment for business operations. On one hand, high-quality institutions provide clear and enforceable rules, protect property rights, ensure contract enforcement, and promote a level playing field for firms, fostering trust and confidence in the business environment. Sound institutions provide a supportive environment for well-functioning corporate governance mechanisms, ensuring their proper implementation and effectiveness (e.g., Amaeshi et al., 2019; Daily et al. 2003). Well-developed institutions reduce uncertainty, promote efficiency, and drive higher economic growth by ensuring that resources are used productively and not wasted on rent-seeking activities (Hall & Jones, 1999; North, 1990). On the other hand, poor-quality institutions can impede economic activity by fostering redistributive politics rather than growth-promoting activities (Murphy & Vishny, 1993). Iqbal and Daly (2014) further argue that weak institutions divert resources to unproductive sectors and encourage rent-seeking activities, hindering economic growth while strong institutions reduce the likelihood of rent-seeking behaviors, accelerating the economic growth process and enhancing the productivity of reproducible factors.

Investigating the effectiveness of specific corporate governance mechanisms, Nguyen et al., (2021) found that board gender diversity affects firm performance positively only in countries with high national governance quality and is irrelevant otherwise. Other empirical evidence suggests that well-governed firms tend to exhibit better financial performance, lower levels of risk, and higher market valuations. Conversely, weak governance practices have been

associated with financial irregularities, mismanagement, and poor performance (Filatotchev et al., 2021). Prior studies also show that institutional quality significantly affects firm survival (Baumöhl et al., 2019). Boubakri et al., (2015) find that firms from countries with strong political institutions experienced higher growth rates, while Yasar et al., (2011) show that the quality of property rights institutions affects firm competitiveness and performance. Furthermore, North (1994) suggests that institutional quality is the incentive structure of society and provides the basis for economic performance.

The relationship between corporate governance, institutional quality, and economic growth is supported by agency theory, information asymmetry, and institutional theory. The principles underpinning the agency theory justify the need to maximize shareholder value creation as an essential goal for corporate governance (Fama & Jensen 1983). This means that efficient corporate governance should effectively minimize diverging interests between the agent and the principal. As such, the need to manage conflicts of interest to safeguard investors' resources against expropriation by insiders and those in control of the company gives rise to the need for sound governance of the firms (Turnbull, 1997). Enhancing firm performance essentially contributes to growth in the productivity of economies through safeguarding the investor's resources optimizing the productivity of firms (Matashu and Musvoto, 2022), and promoting economic growth.

Research suggests that lower information asymmetry resulting from improved corporate governance and institutional quality positively impacts firm performance (Adams et al., 2005; Demsetz & Lehn, 1985). Reduced information asymmetry enhances investor confidence, lowers financing costs, and fosters efficient capital allocation, ultimately contributing to enhanced firm performance and economic growth (Bushman & Smith, 2001).

The theoretical foundation of this relationship also emerges from institutional theory, which emphasizes the influence of external institutional frameworks, legal structures, and regulatory environments on organizational behavior and economic performance (DiMaggio & Powell, 1983). This theory posits that high-quality institutional frameworks, characterized by transparency, consistency, and regulatory effectiveness, create an environment conducive to economic growth (Knack & Keefer, 1995). By creating and enforcing economic rules and regulations, these institutions play a significant part in shaping the economy (Salman et al., 2019).

Based on the above discussion, the following fifth hypothesis is stated below.

> ***H_{3a} There exists a statistically significant positive correlation between corporate governance and institutional quality, both of which are associated with economic growth across emerging (India and South Africa) and developed (USA and the UK) economies.***

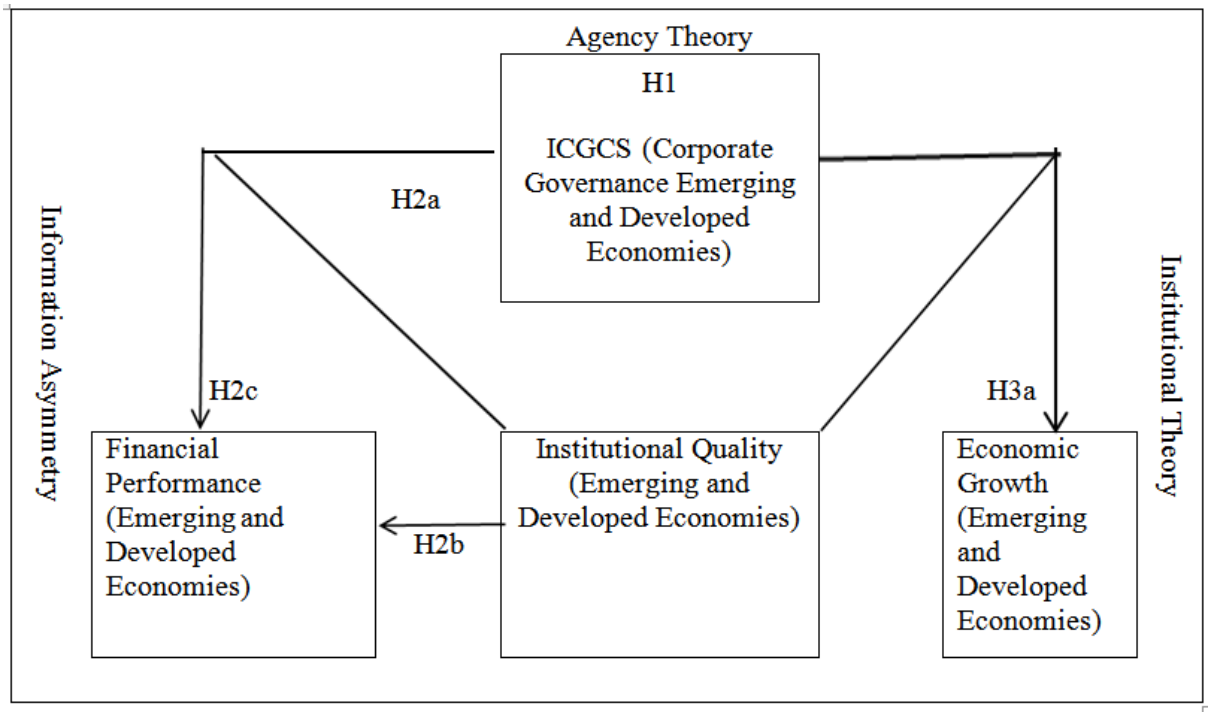
Based on the above hypothesis, the dependent variable is economic growth (GDP growth), and the independent variable is the internal corporate governance compliance score (ICGCS) and institutional quality (IQM). Testing this hypothesis explains the important relationship among corporate governance, institutional quality, and firm performance, shedding light on their collective role in fostering economic growth across diverse markets, including emerging economies such as South Africa and India, and developed ones such as the UK and USA.

Based on the problem statement and research objectives in Chapter 1, the literature review in Chapter 2, and the hypotheses developed in the current chapter, the conceptual framework is then presented in Figure 2 below.

The first part of the conceptual framework evaluates the adherence to corporate governance codes across the sampled countries (Hypothesis 1). Following this, the research delved into exploring both the individual and collective relationship of corporate governance, institutional quality, and firm performance (Hypotheses 2a, 2b, and 2c). Finally, the study culminates by elucidating the integrated relationship among corporate governance, institutional quality, and economic growth (Hypothesis 3a).

3.3 Conceptual Framework

Figure 2: Conceptual Framework



Chapter Summary

This chapter explored the intersection of the theories discussed in chapter two, and how they helped explain the relationship between corporate governance, institutional quality, and firm performance, particularly within the contexts of emerging and developed economies. Four key hypotheses were proposed. First, companies in both emerging and developed markets significantly complied with their respective corporate governance standards. Second, there was a strong positive correlation between corporate governance scores and firm performance in these markets, although this relationship varied depending on the institutional environment. Third, institutional quality was positively and significantly correlated with firm performance across these markets. Finally, the chapter suggested a mutually reinforcing and significantly positive relationship between corporate governance and institutional quality, with each independently contributing to firm performance. The combined effect of robust governance practices and high institutional quality was expected to further enhance firm performance, while poor institutional frameworks could undermine the effectiveness of even the best governance practices. Lastly, the chapter presented the conceptual framework that was used to guide the study. Overall, this chapter set the stage for empirical testing of these

hypotheses, with firm performance and economic growth as the dependent variable and internal governance score and institutional quality as the independent variables. The next chapter presents the research methodology.

CHAPTER FOUR

RESEARCH METHODOLOGY

4.1 Introduction

This chapter presents the methods and methodologies employed to achieve the objectives and answer questions outlined in stated in chapter 1. The chapter is structured as follows. Section 4.2 presents the research's philosophical assumption and discusses the research ontology and epistemology. Section 4.3 presents the research design and includes a discussion of data and data collection methods, the sampling strategy, and data analysis techniques Section 4.4 discusses the model diagnostic tests. Section 4.5 describes the variables. The chapter summary concludes the chapter.

4.2 Philosophical Assumption

Research philosophy encompasses beliefs and perspectives that guide examining knowledge within a research project. These philosophical underpinnings shape the justification for how researchers address their research inquiries (Flick, 2011; Saunders et al., 2012; Bryman, 2012). The choice of research philosophy significantly influences key decisions throughout the research process, such as research design, methodology, and data interpretation. There are three primary research philosophies: positivism, interpretivism, and realism (Saunders et al., 2019). The selection of a research philosophy is contingent upon the nature of the research questions and the researcher's ontological and epistemological assumptions (Creswell & Creswell, 2017). For instance, a positivist philosophy might be suitable for studies aiming to establish causal relationships and produce generalizable findings, while an interpretivist philosophy may be more appropriate for exploring the subjective experiences of individuals.

The selection of a specific philosophy aids in choosing between two research approaches: deductive and inductive. The deductive approach begins with existing theory to formulate hypotheses and test assumptions, progressing

from the general to the specific (Saunders et al., 2012; Kothari, 2004; Silverman, 2013). Conversely, the inductive approach starts with observations, seeking patterns in data to potentially generate new theories, moving from specific instances to broader generalizations (Flick, 2011; Bryman & Bell, 2011). Therefore, this study opted for the deductive approach, focusing on examining the correlation of relationships among variables to test hypotheses and generalize results, rather than aiming to create new theories.

4.2.1 Ontology

The ontological assumption pertains to the perception of reality and whether the researcher believes in an objective reality existing independently of human perception (realism) or if reality is socially constructed (constructivism) (Morgan & Smircich, 1980). Realism and constructivism represent divergent philosophical perspectives, significantly shaping the comprehension of the world and the knowledge claimed. Their distinctions center on ontology, about the nature of reality, and epistemology, governing how to acquire knowledge about the world. Realism, characterized by an ontological stance that posits the existence of an objective reality independent of human perception, contends that this reality adheres to inherent laws and structures discoverable through observation and experimentation (Morgan & Smircich, 1980).

The current study's main objectives are to assess the extent of adherence to corporate governance codes within both emerging (represented by SA and India) and developed markets (represented by the USA and the UK) and further, to examine the individual and collective short- and long-term relationships among corporate governance, institutional quality, firm performance, and economic growth in both emerging and developed markets. A realist perspective in this context asserts the existence of tangible, measurable aspects of corporate governance, firm performance, institutional quality, and economic growth that extend beyond subjective interpretation. By embracing a realist ontological stance, the researcher believes that these research elements have intrinsic properties that can be objectively observed, measured, and analyzed. This viewpoint assumes an external, objective reality that exists independently of individual perspectives. This perspective is

foundational for the current empirical research aiming to identify and quantify specific elements within corporate governance, firm performance, institutional quality, and economic growth. For instance, in assessing the effect of corporate governance on firm performance, a realist approach may prioritize tangible factors such as board composition, executive compensation, and financial ratios, considering them as objective entities with measurable attributes.

4.2.2 Epistemology

The current study adopted a positivism paradigm by exploring hypotheses about the relationship between corporate governance, institutional quality, firm performance, and economic growth in emerging and developed economies. The research is grounded in the compatibility of positivism with key aspects of the research objectives and the nature of the phenomena being investigated. Positivism, as a research philosophy, assumes the existence of an objective reality that can be studied through empirical observation and measurement (Comte & Bridges, 2015; Park et al., 2020). It emphasizes the scientific method and aims to identify universal laws governing various phenomena. On the other hand, interpretivism acknowledges the subjective nature of reality and emphasizes understanding social phenomena through interpretation and context, focusing on exploring the meanings and perspectives of individuals (Burrell & Morgan, 2019). Realism, as a philosophy, integrates elements from both positivism and interpretivism. It recognizes the existence of an objective reality but also acknowledges the influence of context and interpretation, often applied in social sciences to understand complex social structures and processes (Saunders et al., 2019).

The positivist approach facilitates empirical verification (Creswell, 2014) of relationships and causal mechanisms between corporate governance, institutional quality, and economic outcomes. This allows the study to produce robust, replicable findings that are based on empirical evidence, rather than subjective interpretation. Additionally, the generalizability of findings is another significant advantage of the positivism paradigm (Park et al., 2020).

This empirical focus enhances the credibility and reliability of the study's findings (Yermack, 1996).

Moreover, the objectivity emphasized by positivism ensures that the study can minimize the researcher’s bias, enabling the findings to be based on empirical evidence rather than subjective interpretation. This objectivity is crucial for producing reliable results that are duly influenced by preconceived notions or subjective perspectives (Creswell, 2014). While there are other research paradigms such as interpretivism and critical realism, which may also provide valuable insights, the positivist approach is advantageous because the study can generate empirical evidence to inform informed decisions and policy recommendations at both economic levels in emerging and developed economies.

Logical positivism, also known as logical empiricism, is a philosophical movement characterized by its emphasis on the verification principle (Rubinstein, 2005). This principle asserts that statements are meaningful only if they are either empirically verifiable or logically necessary. The movement places a robust emphasis on the logical and empirical foundations of scientific knowledge, aiming to establish a clear connection between empirical observation, language, and scientific understanding (Rubinstein, 2005). However, post-positivism emerged as a response to the limitations and critiques of strict positivist principles. While it maintains a commitment to empirical evidence and the scientific method, it acknowledges the complexities and limitations of purely objective observation. Post-positivism recognizes the influence of context, interpretation, and values in the research process (Guba & Lincoln, 1994).

This study embraced the positivist paradigm for its aptness in empirically examining hypotheses regarding the impact of corporate governance and institutional quality on firm performance and economic growth in both emerging and developed economies. This choice was motivated by several factors. The positivism paradigm, grounded in the philosophy that social phenomena can be studied using methods similar to those used in the natural sciences, emphasizes empirical observation and the quest for objective truth

through systematic, quantitative research methods (Saunders et al., 2012). This paradigm aligns well with the current study's objective to quantify and analyze the correlation between corporate governance, institutional quality, firm performance, and economic growth.

The use of quantitative research methods is adopted under the positivist philosophy to measure and analyze the relationship between corporate governance practices, institutional quality, firm performance, and economic growth across diverse economies. By employing statistical tools and metrics, the study can generate quantifiable data to assess these complex relationships objectively. Also, positivism is associated with quantitative research methods and emphasizes statistical analyses and the use of numerical data. Given the hypotheses examined in the current research, which involve complex relationships between numerous factors, a positivist paradigm provides a methodological framework for collecting and analyzing quantitative data, enabling the researchers to apply statistical techniques to test hypotheses and derive empirical conclusions (Brown & Jones, 2017). Moreover, positivism's systematic and standardized approach facilitates cross-cultural comparisons, which is an essential aspect of the study that spans emerging and developed economies with potentially significant variations in cultural, institutional, and economic contexts. The paradigm enables the establishment of comparable metrics and the identification of common patterns or differences across diverse settings.

In conclusion, the positivism paradigm is well-suited for the study of the relationship between and among corporate governance, institutional quality on firm performance, and economic growth in emerging and developed economies. Its emphasis on empirical observation, quantitative analysis, objectivity, and generalizability offers clear advantages for comprehensively analyzing the complex relationships between corporate governance, institutional quality, firm performance, and economic growth within diverse economic contexts.

4.3 Research Approach

4.3.1 Definition of Research Approach

In academic inquiry, the research approach plays a pivotal role in shaping the design, methodology, and execution of a study. It serves as the foundational framework through which researchers navigate the complexities of their investigations. There exist two primary research approaches: quantitative and qualitative. Quantitative methods involve gathering numeric data from numerous respondents, typically employing tools like questionnaires and statistical analyses to test established hypotheses (Goddard & Melville, 2004; May, 2011; Bryman, 2012). In contrast, qualitative methods employ non-numeric approaches, such as interviews, to explore the meanings behind social phenomena rather than establishing direct causal relationships between variables (Berg, 2004; Feilzer, 2010).

A researcher has the flexibility to utilize solely quantitative, solely qualitative, or a combination of both methods. Quantitative data essential for empirical analysis can be categorized as cross-sectional, time series, or panel data. Cross-sectional data collects variables from various entities at the same time, while time series data observes variables from a single entity over a duration. Panel data involves gathering variables from multiple entities across a period (Gujarati, 2003; Goddard & Melville, 2004; Flick, 2011; Saunders, Lewis, & Thornhill, 2012; Bryman, 2012; Greene, 2003; Huang, Hsiao, & Lai, 2007). This study employs a quantitative research approach due to the reasons outlined below.

4.3.2 Rationale for the Selected Research Approach

The study employs a quantitative research approach in investigating hypotheses related to the influence of corporate governance and institutional quality on firm performance and economic growth in both emerging and developed economies. Given the philosophical assumption of this study is positivism, adopting quantitative research methods aligns with the philosophical assumptions. This is because the study involves using statistical

analyses to examine the relationships between variables, financial metrics, and economic indicators for a more objective and systematic investigation.

In addition, quantifying of the variables involves developing hypotheses that allow for systematic measurement and numerical representation of these variables, facilitating statistical analysis to discern patterns and relationships (Smith & Johnson, 2019). Likewise, the study aimed to establish causal relationships and formulate generalizable principles regarding the effect of corporate governance and institutional quality on firm performance and economic growth. Quantitative research, with its focus on statistical analysis, is adept at identifying statistically significant associations, contributing to the development of generalized knowledge applicable across diverse economies (Brown & Jones, 2017).

Furthermore, the large-scale nature of the study, involving the examination of effects across different economies, necessitates the analysis of extensive datasets. A quantitative approach excels in handling large volumes of data efficiently, enabling researchers to explore nuanced relationships and patterns systematically, thereby enhancing the robustness and reliability of the findings.

Comparative analysis across different economies also benefits from a quantitative framework, providing a structured approach for conducting cross-cultural comparisons. By employing statistical techniques, I can identify commonalities and differences in the effect of corporate governance and institutional quality on firm performance and economic growth, contributing to a more comprehensive understanding (Yermack, 1996).

Additionally, the empirical validation of hypotheses is facilitated by the use of quantitative measures. Statistical tests allow researchers to determine the significance of relationships and rigorously test the proposed hypotheses. This empirical validation enhances the credibility and reliability of the study's findings (Smith & Johnson, 2019).

Lastly, the alignment of the quantitative approach with the positivist paradigm, emphasizing objectivity and measurable reality, is particularly relevant when studying economic phenomena. This paradigmatic consistency ensures that the research maintains an objective and systematic footing (Yermack, 1996).

Overall, the decision to employ a quantitative research approach in this study is grounded in its suitability for systematically addressing the research questions, quantifying variables, establishing causality, conducting large-scale analyses, and facilitating cross-cultural comparisons. The robustness and reliability of the findings are enhanced through empirical validation, aligning with the overarching objectives of the research.

Specifically, the study has used multiple regression analysis to explore the causal relationship between the study variables because it is the most suitable method when assessing associations between one dependent variable and multiple independent variables (Huang et al., 2011; Hair et al., 2009; Bhagat & Bolton, 2008; Core, Holthausen & Larcker, 1999; Diacon & O'Sullivan, 1995).

4.4 Research Design

4.4.1 Definition and Role of Research Design

Research design serves as a structured and systematic plan, acting as a comprehensive blueprint that outlines the procedures, methods, and techniques for conducting a research study. This overarching framework guides researchers in the collection, analysis, and interpretation of data, ensuring the study's objectives are met effectively and rigorously. One of the fundamental roles of research design is to provide a blueprint for inquiry. It offers a detailed outline of how the research will be conducted, encompassing decisions on research methods, sampling strategy, data collection instruments, and analytical techniques. It determines the who, what, where, when, and how of a study, providing a framework for addressing the research question rigorously and objectively (Babbie, 2010).

A well-crafted research design contributes to methodological rigor by ensuring that the chosen methods are appropriate for addressing the research questions. It plays a crucial role in minimizing biases and confounding variables, ultimately enhancing the overall quality of the study. The design also aligns the study with its overarching objectives, ensuring that the chosen methods are tailored to address specific research questions (Creswell, 2014). Research design guides the data collection process by specifying the sources of data, procedures for data collection, and the instruments used. This guidance helps in the systematic gathering of relevant information to answer research questions. Importantly, a good research design allows for flexibility and adaptability, acknowledging that research is an iterative process, and adjustments may be necessary based on emerging insights or unforeseen challenges (Creswell, 2014). Furthermore, the research design contributes to the assurance of validity and reliability in the study. By clearly outlining the methods and procedures, the researcher establishes the credibility and trustworthiness of their findings (Creswell, 2014).

4.4.2 Types of Research Designs: Experimental, Exploratory, Explanatory, and Descriptive Study Designs

Experimental, exploratory, explanatory, and descriptive study designs represent diverse approaches in research methodology. Experimental designs involve the intentional manipulation of variables to establish causal relationships, with characteristics such as random assignment and control groups (Trochim & Donnelly, 2008). Exploratory designs aim to investigate new or underexplored topics, utilizing methods like interviews or observations to generate hypotheses for further research (Polit & Beck, 2021). Explanatory designs focus on understanding relationships between variables, often employing statistical analyses to identify patterns and associations (Creswell & Creswell, 2017). Descriptive designs, on the other hand, involve the systematic observation and portrayal of phenomena as they naturally occur, providing a detailed account without manipulation (Neuman, 2014). Each design serves distinct purposes and offers a range of tools to address various

research questions and objectives. The research design adopted by this study is exploratory because of the reasons explained below.

4.4.3 Rationale for Choosing an Exploratory and Explanatory Research Design

This study adopted both an exploratory and explanatory research designs because both exploratory and explanatory research designs were used to achieve a comprehensive understanding of the subject matter. These designs served distinct yet complementary purposes, enhancing the overall quality and depth of the research. The primary objective of explanatory studies is to explain why certain phenomena occur (Guluma, 2021). The exploratory research design was instrumental in delving into the complex relationships between corporate governance, institutional quality, firm performance, and economic growth. This phase was particularly valuable in the context of emerging markets, where existing theories did not fully capture the unique local dynamics, and data availability was often limited. By investigating these intricate connections, researchers were able to identify relevant variables and formulate hypotheses central to the study. The insights gained during this phase were crucial for understanding how different aspects of corporate governance and institutional quality interacted across various market contexts.

On the other hand, the explanatory design also yielded valuable insights for policymakers and business leaders. By understanding the causal mechanisms that influenced firm performance and economic growth, stakeholders were able to develop targeted interventions to enhance corporate governance and institutional frameworks. These insights informed policies and practices that ultimately contributed to better firm performance and economic outcomes.

In conclusion, the integration of both exploratory and explanatory research designs in this study ensured a thorough investigation of the subject matter. The exploratory phase allowed for the identification of key variables and the generation of hypotheses, while the explanatory phase rigorously tested these hypotheses and validated the findings. This combination provided a robust

foundation for drawing meaningful conclusions and developing actionable insights, ultimately contributing to a deeper understanding of the effects of corporate governance and institutional quality on firm performance and economic growth across different market contexts.

4.5 Data and Methodology

4.5.1 Sample Selection Criteria and Procedure

The firms selected for investigating the relationship between corporate governance and financial performance were randomly sourced from companies listed on the New York Stock Exchange, the London Stock Exchange, the National Stock Exchange of India, and the Johannesburg Stock Exchange in South Africa. As of December 31, 2011 (financial year), there were 1,809 common stock companies listed on the NYSE; 2,100 on the LSE; 5,192 on the NSEI; and 377 listed companies on the JSE as of December 31, 2016. Table 1 below shows the sampling framework of the study.

Table 2: Sampling Framework

Stock Exchange	Common stock companies listed	No of the companies sampled
NYSE	1,809	100
LSE	2,100	100
NSEI	5,192	100
JSE	377	100

The four stock exchanges are prominent financial markets globally, listing a diverse array of companies. In this case, studying all the listed firms was impractical due to resource constraints, time efficiency, precision, and generalizability. As a result, the process of selecting a random sample for each stock exchange became crucial to ensuring representative results. The process of sample selection involved a few steps. One, the process began by gathering a comprehensive list of all firms listed on each of the selected stock exchanges. The list was obtained from the official website of each stock exchange. Two, each firm on the compiled list was assigned a unique identifier, setting the stage for a systematic and organized selection process. This numbering system formed the backbone of this process. Three, based on

literature (Chandra et al., 2019; Ntim, 2009) and deliberations with the supervisor and the proposal defense panel led to the decision to opt for a sample size of 100 firms, a choice influenced by the study's scope and the resources at my disposal. Four, leveraging a random number generator, I obtained 100 unique random numbers within the total range of listed firms on each stock exchange. This digital tool facilitated an unbiased and efficient selection process. Five, the randomly generated numbers were matched with the numbered firms on my list, this resulted in the identification of the 100 firms that constituted my random sample. This step was crucial in upholding the principle of equal opportunity for every firm to be included and last, to ensure the robustness of my sample, I undertook a thorough verification process. This involved confirming that the selected firms met any specific criteria established for the study, such as being listed since the 2011 financial year.

For practical reasons, the entire sample is limited to 400 companies because corporate governance information was manually collected from the company's financial statements and other sources. This exercise is labor-intensive, and it would be impractical to collect information from a large sample or the entire stock exchange over a given period of years. This led to reducing the sample to a size that is large enough to produce statistically acceptable results, while at the same time being able to complete the research within scheduled study time.

The sample period was between 2011-2020. The decision to examine the effect of corporate governance on firm performance over the period from 2011 to 2020 is justified by several key considerations. Firstly, this time encompasses multiple economic cycles, including periods of growth, recession, and recovery, offering a comprehensive understanding of how corporate governance and firm performance interact under varying economic conditions (Smith, 2015). The 10-year duration facilitates a longitudinal analysis, enabling the investigation of trends and changes in corporate governance practices and firm performance over time. This longitudinal approach contributes to a nuanced interpretation of the relationships between

these variables (Johnson et al., 2018), and a nuanced exploration of temporal and long-term dynamics and trends in corporate governance practices. This longitudinal approach is beneficial in capturing how governance structures evolve, providing a more comprehensive understanding of the subject (Aguilera, et. al, 2008).

Moreover, the years selected allow for access to a wealth of reliable and comprehensive data, considering the evolution of financial reporting standards and disclosure practices during this period (Gibson, 2012). The aftermath of the 2008 global financial crisis is included in the study period, providing valuable insights into how corporate governance practices adapted in response to significant economic challenges (Hermalin & Weisbach, 2012). The time also encompasses regulatory changes in corporate governance guidelines and regulations, enabling an assessment of their effect on corporate behavior and performance (Monks & Minow, 2011).

Significantly, the study period aligns with the technological advancements and changing business landscapes witnessed between 2011 and 2020. This allows for an examination of how these developments may have influenced corporate governance structures and, subsequently, firm performance (Sarkis, 2019). Additionally, the contemporary relevance of the chosen period enhances the applicability of the findings to current discussions on governance and performance (Zhang et al., 2016).

Furthermore, the inclusion of companies from four diverse stock exchanges enables a comparative analysis of governance practices across different market environments. This approach enhances the external validity of the research, shedding light on potential cross-cultural variations in governance practices (La Porta et al., 1998). The choice of a larger sample size, involving 400 companies, contributes to increased statistical power, enhancing the reliability and precision of the study's results. This allows for more robust conclusions regarding the relationships between governance structures and firm performance (Cohen et al., 2003).

By adopting this research design, which includes a 10-year period and a sample from diverse stock exchanges, the study demonstrates methodological rigor and thoroughness. This approach aligns with the complexities of corporate governance, acknowledging the importance of considering multiple factors over time. It adds depth and richness to the research, contributing to a more holistic understanding of the subject.

4.5.2 Data and Data Collection Methods

This study used both macro data (growth in GDP, institutional quality, inflation, FDI, population growth, and national culture measure), and micro data (ROE, Tobin's Q, stock liquidity, firm size, firm age, liquidity ratio, and corporate governance). Macro data was obtained from World Bank websites. Micro data on ROE, Tobin's Q, stock liquidity, firm size, firm age, liquidity ratio was obtained from both financial reports, and DataStream database. Data on corporate governance practices for companies was compiled from the annual reports, which were downloaded from the websites of the stock exchanges and proxy statements for companies listed on the NYSE (USA). All the internal corporate governance variables were manually extracted from the annual reports of the sampled companies. Financial performance variables were selected based on previous research (e.g Aduda et al., 2013; Black et al., 2006; Ntim, 2009; Tshipa & Mokoaleli-Mokoteli, 2015).

The first objective of this study was to determine whether companies operating in emerging (India and South Africa) and developed (USA and the UK) economies demonstrate a significant level of compliance with their respective country's corporate governance standards. To determine the level of compliance with codes of corporate governance in each sample country, the internal corporate governance compliance score (ICGCS) was constructed for each country using the existing codes of corporate governance and other governance. The codes of corporate governance used to construct the ICGCS were grouped into five governance categories (board leadership, shareholder rights, engagement of stakeholders, accountability and audit, and disclosure and transparency. All the preceding corporate governance measures were obtained from individual country's codes of corporate governance and other

sources such as rules and regulations of stock exchanges and acts of parliament. Proxy statements formed an additional source of information for the USA companies. The process of collecting information about the sample country's codes of corporate governance to compute the ICGCS was labor-intensive, and it was impractical to collect information from the whole stock market population for each country, over the sample period. Although the sample size is reduced, it is still large enough to produce statistically acceptable results.

Table 2 shows the components of corporate governance along with their respective scores, which were aggregated to calculate the overall internal corporate governance Score (ICGCS) for the country. Table 2 shows that each sample country places high scores on the composition and structure of the board of directors, thus evaluating the presence of independent directors, board diversity, and the separation of CEO and chairperson roles (Monks & Minow, 2011). The ICGCS assessment tool for all the countries is found in Appendix 1.

Table 3: Comparison of ICGCS scoring tool across sample countries

Corporate Governance Categories	South Africa	India	UK	USA
Role of the corporate board and responsibilities	40	35	35	39
Shareholder rights	17	20	10	16
Stakeholder engagement	12	10	20	12
Risk, Accountability, and Audit	10	10	10	10
Transparency and disclosure	21	25	25	23
Total internal governance score	**100**	**100**	**100**	**100**

The ICGCS mirrors corporate governance indices commonly utilized in academic research that are similar to the present study. Corporate governance indexes are quantitative tools designed to assess and measure the governance practices of companies (Gompers et. al., 2003). They provide a systematic framework for evaluating various aspects of a company's governance structure, allowing stakeholders, investors, and researchers to compare and benchmark the governance performance of different entities. These indexes are typically composed of multiple indicators and criteria that cover areas like

board composition, executive compensation, shareholder rights, transparency, and ethical practices. However, the subjectivity involved in index construction, with choices in selecting, weighing, and scoring governance attributes, introduces some biases. In addition, the focus on formal compliance within indexes might overlook the actual effectiveness of governance mechanisms in practice. Furthermore, the lack of universally accepted standards can lead to discrepancies in ratings across agencies, providers, and studies (Hermalin & Weisbach, 2003; Gompers et al., 2003; Clarke & dela Rama, 2006). As demonstrated in cross-country governance-firm performance studies (Al-Malkawi et al., 2014; Ammann et al., 2011a; Ararat et al., 2017), it is widely acknowledged that no single corporate governance compliance score can adequately capture corporate governance compliance across diverse countries. Therefore, the present study uniquely crafted a specific corporate governance index, or score tailored to the context of each sampled country. The variances across countries highlighted by Booze and Bozec (2012), along with the challenges in measurement, further underscore the rationale behind creating and employing a customized governance score for each country sampled in this study.

The creation of a tailored governance score also served to circumvent the limitations inherent in existing scoring methodologies. Thus, many current indexes have drawbacks, such as subjectivity, lack of universality, or a focus on formal compliance rather than substantive effectiveness (Gompers et al., 2003; Clarke & dela Rama, 2006). Constructing a country-specific score provides an opportunity to address these limitations, resulting in a more robust and tailored measurement of governance practices. Therefore, the decision to use the internal corporate governance compliance score for this study stems from the need for customization, improved cross-country comparability, a comprehensive assessment of governance, addressing existing score limitations, and the integration of institutional quality measures for nuanced analysis.

There were a few lessons acquired from the construction of the country indices. One, diligence in identifying the items to be included in the internal governance score is crucial. Two, because different items included to compute

the total score have different weightings, it is possible that the weighted index would be more appropriate. The weighting and weighting process should be clearly defined to enhance transparency. This may help stakeholders understand the methodology behind the assessment, build trust, and a better understanding of how the score was compiled. Three, the corporate governance score should be dynamic and this can be achieved by frequently refining the criteria and adjusting weightings in response to evolving industry standards, regulatory alterations, and emerging best practices. Regular reviews may guarantee the score's relevance and precision. Last, when devising and updating the corporate governance score, future users should incorporate input from a range of stakeholders, encompassing investors, employees, and regulatory bodies. This approach will ensure a comprehensive and inclusive evaluation.

The development of a country-specific corporate governance compliance score to measure the effect of corporate governance on firm performance and economic growth in emerging and developed markets contributes significantly to the body of knowledge in several ways. One, tailoring the ICGCS score to the context of each country allows for a more nuanced understanding of corporate governance practices within specific institutional and regulatory frameworks. This contributes to the body of knowledge by providing country-specific insights into the relationship between corporate governance, firm performance, and economic growth (La Porta et al., 1998). Two, the development of a contextualized ICGCS facilitates comparative analysis between emerging and developed markets, thereby enabling a comparative assessment of the moderating effect of institutional quality on the relationship between corporate governance, firm performance, and economic growth across different market settings, enhancing our understanding of cross-country variations (Klapper & Love, 2004). Three, the inclusion of institutional quality in the analysis assists in understanding better the role of the institutional environment in ensuring the effectiveness of corporate governance providing insights into the interplay between institutional quality, corporate governance practices, and economic outcomes (Johnson, La Porta, & Shleifer, 2000).

There were several reasons for choosing the sample emerging (SA and India) and developed countries (USA and UK) in this study. South Africa and India were selected as representative emerging markets in this study due to their significant roles in the global economy and distinctive characteristics that align with the study's focus on corporate governance and institutional quality. Both countries have diverse economic landscapes, blending traditional sectors with rapidly growing industries, which offers a rich context for examining how governance and institutional quality influence firm performance. They also face common challenges typical of emerging markets, such as institutional weaknesses and evolving regulatory environments, making them ideal case studies for exploring these dynamics.

Additionally, South Africa and India have experienced significant, though volatile, economic growth, providing valuable contexts for analyzing the relationship between institutional quality, corporate governance, and economic performance. While both are emerging markets, they have distinct institutional frameworks—South Africa’s advanced financial markets and strong legal systems contrast with India’s complex regulatory environment, allowing for a nuanced analysis of institutional quality's impact on firm performance.

The UK and the USA were chosen as developed economies due to their mature markets, advanced corporate governance practices, and well-established institutional frameworks. These countries have a long history of stable economic growth and sophisticated financial systems, making them ideal for studying the impact of high-quality governance on firm performance. Their strong institutional quality serves as a benchmark for comparison with emerging markets like South Africa and India. As two of the world’s largest economies, the UK and USA offer a broader context for understanding how developed economies’ governance models contrast with those in emerging markets.

In summary, the selection of South Africa and India as emerging markets, alongside the UK and the USA as developed economies, is justified by their economic diversity, challenges, and institutional frameworks. This combination enables a comprehensive comparative analysis, enriching the

study's exploration of how corporate governance and institutional quality affect firm performance and economic growth across different markets.

The research period was between 2011-2020. The decision to examine the effect of corporate governance on firm performance over the period from 2011 to 2020 is justified by several key considerations. First, this period encompasses multiple economic cycles, including periods of growth, recession, and recovery, offering a comprehensive understanding of how corporate governance and firm performance interact under varying economic conditions (Smith, 2015). In addition, the 10-year duration facilitates a longitudinal analysis, enabling the investigation of short- and long-term relationships among corporate governance, institutional quality, firm performance, and economic growth. Thus, this longitudinal approach contributes to a nuanced interpretation of the relationships between the research variables (Johnson et al., 2018).

The research uses secondary data obtained from companies' annual reports and various databases including *World Bank* and *DataStream*. The advantages of using secondary data include the ability to have a large sample size, from various geographical areas and the ability to use longitudinal without the need for extensive data collection efforts. One notable weakness of using secondary data is the potential for subjectivity and reporting bias by companies to strategically present information to portray a positive image (Hribar & Collins, 2002). To address this, the cross-referencing approach was used, which allowed the validation of information through comparisons with regulatory filings. Also, all annual reports used as sources of information were audited which attested to the credibility of the information used. Moreover, the exclusive utilization of listed companies serves as a validation mechanism, given their adherence to stringent reporting protocols.

Selective disclosure is also a common weakness when dealing with secondary data in annual reports and financial statements. In a selective disclosure, companies may emphasize the positive benefits of the information that they provide, while downplaying the negatives (Beyer et al., 2010). To ensure that this research was free from selective disclosure, the entire annual report

including footnotes was scrutinized. The common problem of inconsistencies in language and terminology usage among different companies (see Jaggi and Tsui, 2011) was overcome by ensuring terms were standardized through a coding system.

4.5.3 Assessing the Extent of Adherence to Corporate Governance Codes within both Emerging and Developed Markets

This section describes the process of assessing the adherence to corporate governance by companies operating in sample countries (South Africa, India, The USA, and the UK). All the items were equally weighted and added up to 100. To gauge the extent of compliance with corporate governance standards in each sampled country, the corporate governance of each company was evaluated against the ICGCS items detailed in Appendix 1. If a company adhered to any of the items outlined in the country's ICGCS, it received a score of 1; otherwise, it received a score of 0. After assigning scores to all items, the total internal corporate governance compliance score (ICGCS) for each company was calculated. Thus, a company fully adhering to the country's ICGCS would achieve an ICGCS score of 100, whereas one demonstrating complete non-compliance would receive an ICGCS score of zero. This scoring approach is in line with previous literature (e.g., Abdoush et al., 2016; Al-Malkawi et al., 2014; Klapper and Love, 2004; Ntim, 2009), among others. Therefore, the internal corporate governance compliance score for each company is the sum of the scores assigned to each item divided by one hundred.

The company’s ICGCS in each country was scientifically tested for reliability by using to Cronbach alpha reliability test. The Cronbach alpha demonstrates how well questions in an instrument are related to one another (Cronbach, 1951). Cronbach’s alpha value ranges from 0 to 1, with higher values indicating greater internal consistency among the items. A higher alpha suggests that the items in the test are more reliable in measuring the same underlying construct. The Cronbach alpha score was 0.8021, 0.8011, 0.8110, and 0.8203 for SA, India, USA, and UK, respectively. This means that the Cronbach's alpha was above 0.70 for all sample countries. Sekaran and Bougie

(2016) show that a Cronbach's alpha coefficient that is above 0.7 is considered highly reliable.

4.5.4 Assessing the Relationship between Corporate Governance, Institutional Quality, and Firm Performance

This section describes the technique used to determine the relationship between corporate governance, institutional quality, and firm performance. The dataset utilized in this study is panel data encompassing information from two emerging market countries and two developed market countries (n) across multiple periods (t) spanning from 2011 to 2020. The benefits of using panel data analysis include being able to trace causal mechanisms behind observed changes and going beyond mere correlations (Hsiao, 2014). Moreover, panel data analysis enables the control of unobservable characteristics of firms or countries. By capturing their time-invariant effects, it effectively removes individual-specific influences that are not correlated with explanatory variables, akin to filtering out persistent background noise within an economic system (Baltagi, 2013). Furthermore, panel data leads to increased efficiency and robustness due to its ability to handle multiple observations per unit. Because of this, panel data analysis provides richer information, leading to more efficient estimates and robust inferences. The panel data analysis enhances the precision of estimates when compared to relying solely on either cross-sectional or time-series data (Wooldridge, 2010).

However, the effective utilization of panel data analysis requires meticulous attention to various factors. Paramount among these is the selection of an appropriate model, a decision influenced by considerations such as the research question, data structure, and potential biases (Baltagi, 2005). It is crucial to exercise care when choosing between fixed-effects, random-effects, or dynamic models to ensure the validity and precision of the research outcomes (Wooldridge, 2010). Furthermore, addressing data-related issues is imperative to preserve the integrity of panel data analysis. Concerns such as missing data, measurement errors, and non-random selection must be carefully dealt with. Employing robust estimation techniques and conducting sensitivity checks becomes essential in overcoming these challenges (Baltagi, 2005).

Various techniques could be used to analyze the panel data, and this includes pooled ordinary least squares, fixed effects, random effects, and Generalized Method of Moments (GMM). While these panel data analysis techniques share some similarities, they also have their different assumptions, estimation procedures, and properties. Appendix 2 below compares the four commonly used panel analysis techniques. Considering its assumptions, properties, and estimation procedures, the Generalized Method of Moments (GMM) technique emerges as the suitable method to robustly ascertain the relationship between corporate governance, institutional quality, firm performance, and economic growth.

The strength of the GMM estimation technique also lies in its effectiveness in tackling endogeneity concerns and controlling for unobserved individual heterogeneity. This makes this technique particularly valuable for studying time-varying effects, persistence, and causality within panel datasets (Arellano & Bover, 1995; Blundell & Bond, 1998; Hsiao, 2014). The GMM data analysis technique has advantages over other panel data techniques, especially in dealing with heteroskedasticity. Thus, GMM leverages orthogonality conditions to facilitate efficient estimation in the presence of heteroskedasticity of unknown form. A one-step Arellano-Bond estimator with robust standard errors was used in the current study due to the potential downward bias in standard errors for small samples, as noted by Arellano and Bond (1991).

The Arellano-Bond estimation method utilizes the first-difference form, which helps mitigate biases stemming from omitted variables and country-specific fixed effects. These fixed effects, such as geography and demographics, which may be correlated with explanatory variables, remain constant over time, and are thus effectively controlled for. In conventional GMM estimation, these effects would otherwise be absorbed into the error term unless explicitly accounted for. However, a drawback of GMM estimation is the potential introduction of autocorrelation due to the inclusion of the lagged dependent variable y_{it-1} in Equation (1). Yet, this issue is circumvented in difference GMM estimations, where the first-differenced lagged dependent variable is also instrumented with its previous levels.

Moreover, the difference GMM estimator was specifically devised for scenarios with a small-time dimension and large cross sections, a setup that aligns with the current study's 10-year time span and 100 observations across different entities. In tackling endogeneity, the difference GMM estimator integrates lagged levels of endogenous predictors while employing exogenous variables as instruments. This approach aims to counter the potential correlation between the error term in the first-difference equation (Eq. (2)) and (yit−1−yit−2). By instrumenting lagged values of predictors, they become predetermined, thus ensuring they are uncorrelated with the error term.

In this analysis, lagged values of both dependent and independent variables in their original level form are also utilized as instruments in the first-difference equation. However, it's essential to note that this method is limited to handling weak forms of endogeneity, assuming that these variables are weakly exogenous. This implies that while they could be influenced by dependent variables, they are not correlated with the error term. The validity of this assumption can be evaluated through the Sargan test of over-identifying restrictions, which assesses the overall validity of the instruments, and the second-order serial correlation test, which examines the hypothesis that the error term lacks serial correlation (Arellano and Bond, 1991; Arellano and Bover, 1995; Blundell and Bond, 1998).

In the context of the current study, a critical consideration revolves around the inherent endogeneity prevalent in relationships concerning corporate governance, firm performance, and economic growth. GMM offers an effective solution to address these endogeneity concerns by incorporating lagged variables as instruments (Semykina & Wooldridge, 2010). This approach not only enhances the efficiency of parameter estimates by capturing temporal dependencies but also ensures the reliability of statistical inference by alleviating potential biases arising from endogenous factors. Particularly in the dynamic environment of emerging and developed markets, where the evolution of corporate governance practices significantly influences economic trajectories over time, GMM emerges as a method capable of adeptly modeling these intricate relationships.

Efficiency gains in parameter estimates facilitated by GMM hold particular significance in comparative analysis settings. By accommodating the dynamic nature of panel data, this method leverages the wealth of information inherent in the temporal dimension, resulting in more accurate estimates (Piper, 2014). Such efficiency not only fosters a more nuanced comprehension of the complex relationships under scrutiny but also bolsters the overall robustness of the study's findings. Moreover, the study opted for system GMM estimation, as it enhances model precision while mitigating small sample bias (Rahman et al., 2019).

The current study compares governance firm performance and economic growth in emerging and developed markets, which introduces complexities that demand a robust methodology. GMM, with its ability to handle unobserved heterogeneity, is well-suited for such comparative analysis. The method's efficiency in controlling for individual-specific effects and capturing dynamic relationships over time positions it as an optimal choice for a nuanced understanding of how corporate governance affects firm performance and economic growth across diverse economic landscapes.

Furthermore, the present study is specifically using GMM to assess the short-term and long-term relationship between corporate governance, institutional quality, firm performance, and economic growth. In GMM estimation, the long-run effect of a variable can be calculated using the coefficients estimated through the GMM framework. The GMM technique provides a way to estimate the effect of an independent variable on a dependent variable in a given period, allowing for the study investigation of the long-run relationship between the variables. The GMM calculates the long-run relationship using the formula below.

$$\beta_{\text{long-run}} = \frac{\sum_{j=-\infty}^{\infty} E[f(x_t, \beta_0) f(x_{t-j}, \beta_0)']}{1 - \sum_{j=-\infty}^{\infty} \rho_j}] \qquad \textbf{Equation 1}$$

Where $\left(f(x_t, \beta_0)\right)$ $r$epresents a function of the data at a time (t) with parameter vector β_0.

Assessing both short-term and long-term relationships between corporate governance, institutional quality, firm performance, and economic growth is crucial for gaining a comprehensive understanding of the dynamics between the dependent and independent variables over time. Short-term relationships provide insights into immediate responses and fluctuations, guiding short-term decision-making and interventions. On the other hand, long-term relationships reveal underlying trends, structural changes, and systemic risks that may unfold over extended periods, informing strategic planning and policy development. By analyzing both time horizons, study findings can inform decision-makers to develop more robust strategies that address immediate needs while promoting sustainable, long-term outcomes.

Utilizing GMM techniques, three models are estimated. The first model examines the relationship between performance and firms' internal corporate governance compliance score (ICGCS) for companies across sample countries throughout the sample period, controlling for additional variables. The model is estimated by equation 1 as follows:

$$\text{Firm_Perf}_i = \alpha_0 + \alpha_1(ICGCS_i) + \alpha_2(\text{Control}_i) + e_i \quad \textbf{Equation 2}$$

Where: Firm_Perf_i represents the firm performance (measured by ROE, liquidity, and Tobin's Q) of the i-th firm; ICGCS represents the internal corporate governance compliance score of the i-th firm; Control represents the control variables for the i-th firm; $\alpha_{(1,2)}$ are the coefficients to be estimated; α_0 is the constant term

The second model estimates the relationship between firm performance and institutional quality for companies operating in emerging and developed markets over the sample period while including control variables.

$$\text{Firm_Perf}_i = \alpha_0 + \alpha_1(IQM_j) + \alpha_2(\text{Control}_i) + e_i \quad \textbf{Equation 3}$$

Where: Firm_Perf_i represents the firm performance (measured by ROE, liquidity, and Tobin's Q) of the i-th firm; IQM represents the institutional quality in j-th country; Control represents the control variables for the i-th firm; $\alpha_{(1,2)}$ are the coefficients to be estimated; α_0 is the constant term

The last model estimates the individual and combined relationship between and among firm performance, institutional quality, and the interactive variable of firms' corporate governance and the country's institutional quality. The model is specified as follows:

$$\text{Firm_Perf}_i = \alpha_0 + \alpha_1(ICGCS_i) + \alpha_2(IQM_i) + \alpha_3(\text{ICGCSi} * \text{IQMj}) + \alpha_4(\text{Control}i) + e_i$$

Equation 4

Where: Firm_Perf_i represents the firm performance (measured by ROE, liquidity, and Tobin's Q) of the i-th firm; IQM represents the institutional quality in j-th country; ICGCS_i*IQM_j is an interactive term for both internal corporate governance compliance score and country's institutional quality. Control represents the control variables for the i-th firm; $\alpha_{(1,2,3,4)}$ are the coefficients to be estimated; α_0 is the constant term

4.5.5 Exploring the Relationship between Corporate Governance, Institutional Quality, and Economic Growth

This section employs GMM estimation techniques to investigate the relationship between economic growth, corporate governance, and institutional quality while controlling for firm performance and other pertinent factors across sample countries throughout the sample period (2011 -2020). It is hypothesized that robust institutions foster an enabling environment for effective corporate governance mechanisms, facilitating their proper implementation and efficacy (e.g., Amaeshi et al., 2019; Daily et al., 2003), potentially leading to economic growth.

The first model estimates the relationship between the economic growth of a country and the firm's internal corporate governance compliance score while including relevant controls. The model is specified by equation 4 as follows:

$$\text{Econ Growth}_j = \beta_0 + \beta_1(ICGCS_i) + \beta_2(\text{Control}_j) + e_j \quad \textbf{Equation 5}$$

Where: Econ-Growth_j represents economic growth in the jth country; ICGCS represents the internal corporate governance compliance score of the i-th firm; Control represents the control variables for the i-th firm; $\beta_{(1,2)}$ are the coefficients to be estimated; β_0 is the constant term

The second model estimates the relationship between a country's economic growth and the quality of the institutions in a country. The model is specified in Equation 5 as follows:

$$Econ\ Growth_j = \beta_0 + \beta_1(IQM_j) + \beta_2(\text{Control}_i) + e_i \quad \textbf{Equation 6}$$

Where: Econ-Growth$_j$ represents economic growth in the jth country; IQM represents the institutional quality in j-th country; Control represents the control variables for the i-th firm; β (1,2) are the coefficients to be estimated; β_0 is the constant term

The last model estimates the individual and combined relationship between internal corporate governance compliance score and institutional quality while controlling pertinent control variables. The model is specified in Equation 5 as follows:

$$\text{Econ Growth}_j = \beta_0 + \beta_1(ICGCS_{\text{i)}} + \beta_2(IQM_j) + \beta_3\left(ICGCS_{\text{i}} * IQM_j\right) + \beta_4(\text{Control_i}) + \gamma_{\text{i}}$$

Equation 7

Where: Econ-Growth$_j$ represents economic growth in the jth country; ICGCS represents the internal corporate governance compliance score of the i-th firm; IQM represents the institutional quality in j-th country; Control represents the control variables for the i-th firm; β (1,2,3,4) are the coefficients to be estimated; β_0 is the constant term

4.6 Model Diagnostic Tests

4.6.1 Heteroscedasticity and Autocorrelation

The study used GMM with built-in functionality to deal with heteroscedasticity and data autocorrelation problems. GMM techniques are commonly used in econometrics to address issues such as endogeneity, heteroskedasticity, and autocorrelation in panel data analysis. Using these methods, the research tried not only to manage these specific issues but also to account for the dynamic nature of panel data, especially concerning autocorrelation arising from the temporal structure of the data.

GMM contains a built-in check for the first and second autocorrelation first-order difference, which further tests the suitability of the instruments. This is done through GMM "system" rating (Roodman, 2009). Diagnosis of selected models should indicate that the first order of integration exists, but the second order does not exist. The GMM estimator assumes that a standard deviation exists unrelated to a set of flexible instruments. Therefore, the system GMM estimator selects parameter values so that the correlation between the instruments and the disturbances is close to zero as far as possible, as defined in the function of the condition. By selecting a weighted matrix in the panel

options window, GMM can be robust in eliminating any unknown heteroscedasticity and/or autocorrelation.

An important consideration for the legitimacy of GMM is that instruments are exogenous. If the model is identified accurately, the finding of invalid instruments is not possible, but if the model is over-identified, statistics to assess the combined suitability of temporary conditions (identification limits) come naturally from the GMM/DPD framework (Roodman, 2009). The statistic that is used to assess the combined suitability of temporary conditions (identification limits) is the Hansen J- Statistic.

The null hypothesis of the Hansen (1982) J test statistic refers to exogenous instruments in the model. Instead of rejecting or not rejecting the null hypothesis with a significant probability (p) of 0.00, 0.05, or 0.10), Roodman, (2007) gives what he calls a 'common sense' value instead. Roodman's recommended minimum is a p-value of between 0.10 and 0.25 (2007, p.10). However, Piper (2014) posits that exceptionally low p values are an indication that instrument variables are not exogenous and hence do not meet the orthogonality condition, while Roodman (2009) recommends that remarkably high p values close to 1 should be ignored.

As shown in the results pages in Chapter 5, this test was met as all the Hansen J statistics range from 0.100 to 0.25.

4.6.2 Test for Unobservable Effects in the Specified Models

In panel data analysis, the "Test for Unobservable Effects" refers to a statistical test used to examine the presence of unobservable individual-specific or time-specific effects in the specified models. These unobservable effects, often referred to as fixed effects or random effects, can arise due to individual-specific characteristics (e.g., organizational culture, management style) or time-specific factors (e.g., economic cycles, policy changes) that are not captured by observed variables in the model (Wooldridge, 2002).

The test for unobservable effects is aimed at understanding whether these unobserved individual or time-specific effects significantly contribute to the variation in the dependent variable. Typically, the test helps in determining

whether including fixed effects or random effects in the model is warranted (Greene, 2011). In the context of fixed effects models, the test assesses whether there are systematic differences in the intercepts (and potentially slopes) across different individuals or entities in the panel. On the other hand, for random effects models, the test checks for the presence of unobserved individual-specific or time-specific error components (Bertrand, Duflo, & Mullainathan, 2004)

In this study where both macro and micro data are used, the test for unobservable effects plays a critical role in determining the presence and significance of unobserved individual or time-specific effects on firm performance and economic growth across different market contexts. Specifically, this test aims to examine whether unobservable individual or time-specific factors, such as unique corporate governance practices or institutional characteristics, significantly contribute to variations in firm performance and economic growth. It is instrumental in discerning whether including fixed effects or random effects models in the analysis is appropriate (Bertrand, Duflo, and Mullainathan, 2004), given the specific characteristics of corporate governance and institutional quality across diverse markets.

The test helps to assess whether there are systematic differences in specific unobserved factors related to governance and institutional quality that may affect firm performance and economic growth differently across emerging and developed markets. By accounting for these unobservable effects, the study can better understand the distinct effect of corporate governance and institutional quality on firm-level outcomes, economic growth, and the interplay between these factors across various market environments. Additionally, by employing fixed effects and random effects models, researchers can effectively control for unobserved heterogeneity and address concerns related to simultaneity and reverse causality in panel data analysis.

4.7 Description of Variables

4.7.1 Internal Corporate Governance Compliance Score

4.7.1.1 Internal Corporate Governance Compliance Score for South Africa

The ICGCS serves as a metric for evaluating adherence to a country's internal corporate governance standards. This measure is derived by evaluating the score of each company within a country against the country's internal governance standards (ICGCS). Section 4.3.1 elaborates on the methodology employed to calculate this score. Data sources for constructing each country's index are shown in Tables 4 to 7 below.

Table 4 below summarizes the categories of corporate governance (number of questions in bra The sources of corporate governance guidelines used to develop the ICGCS for South Africa are the King IV corporate governance report (IoDSA, 2016) and the Companies Act 2008 (RSA, 2008).

Table 4: Data sources for ICGCS for *South African companies*

Corporate governance category	No of questions	Source documents for corporate governance items	Score
1. Role of the corporate board and responsibilities			**40**
Board size	1	KR 5.3: P7	
Board independence	2	KR 5.3: P7	
Leadership and independence	4	KR 5.3: P7	
Board Competencies and Diversity	5	KR 5.3: P7	
The company has a Company Secretary/ Professional Advisor	1	KR 5.3: P7	
There is a social Ethics committee	1	KR5.3: P7	
Board duties and responsibilities	1	KR 5.3: P7	
Board and committee meetings	4	KR 5.3: P7	
The presence of an audit and risk or risk committee	1	KR 5.3: P7	
Nominating Committee	2	KR 5.4: P11	
Selection of directors	2	KR 5.4: P11	
Board and individual director appraisal	4	KR 5.4: P14	
Remuneration Committee	2	KR 5.3: P8	
Remuneration Governance	11	KR 5.3: P8, KR 5.4:	
2. Shareholder rights	17	Act 2008 Para 37/KR 5.3: Cos Act 2008 Para 58.	17
3. Stakeholder engagement	12	KR 5.5: P16, KR 5.3: KR 5.4: P18, KR 5.1: P2	12
4. Risk, Accountability, and audit	10	KR 5.3: P8	10
5. Transparency and disclosure	20	KR 5.2: P4	20
6. Technology and Information Governance	1	KR 5.4: P12	1
Total score internal governance score for SA			**100**

companies

4.7.1.2 Internal Corporate Governance Compliance Score for India

There are two sources of corporate governance regimes in India. These are the Securities, Exchange Board of India (SEBI) Listing Obligations, Disclosure Requirements Regulations 2015 (SEBI, 2015), and the Companies Act, 2013. The corporate governance areas assessed are the role and responsibilities of the governing body (corporate board); shareholder rights, stakeholder engagement, risk accountability and audit and five, and transparency and disclosure. Table 5 below summarizes the categories of corporate governance (number of questions in brackets) and the item's source for India.

Table 5: Corporate Governance Compliance Scoring Tool for Indian Companies

Corporate governance category	No of questions	Source documents for corporate governance items	Score
1. Role of the corporate board and responsibilities (Number of Questions)			**35**
Board size	1	Reg 17.1 (c)	
Board independence	1	Reg 17.1 (a-b)	
Leadership and independence	7	Reg 17, 4.1 (b), and Cos Act 2013	
Board Competencies and Diversity	4	Reg 17, 2 (f), 17.1(a)	
Board duties and responsibilities	1	Reg 17, 4-2(f), 17 (5)	
Board and committee meetings	8	Reg 4-.2(f)	
Selection of directors	2	Reg 4, 2(f); 19/ Cos Act 2013 Chap XI (149)	
Board and individual director appraisal	3	Reg 4-2/Schedule V: Annual report	
Remuneration Governance	8	Schedule V: Annual Report 5	
2. Shareholder rights	20	Reg 4-2(a-c)	**20**
3. Stakeholder engagement	10	Reg 4-2(d)	**10**
4. Risk, Accountability, and audit	1	Reg 18(1-2)	**10**
5.Transparency and disclosure	25	Reg 4-2/Schedule V: Annual report	**25**
Total Internal Governance Score			**100**

4.7.1.3 Internal Corporate Governance Compliance Score for UK Companies

The corporate governance compliance score for companies listed on the London Stock Exchange was constructed based on five major categories of corporate governance following the UK Code of Corporate Governance Report 2018 and the Companies Act 2006. The corporate governance categories used are the role and responsibilities of the governing body (corporate board), shareholder rights, stakeholder engagement, risk accountability, and audit five, and transparency and disclosure. Table 6 below summarizes the corporate governance categories and the source of corporate governance measures.

Table 6*:* Corporate governance compliance scoring tool for UK Companies

Corporate governance category	No of questions	Source documents for corporate governance items	Score
1. **Role of the corporate board and responsibilities (Number of Questions)**			35
Board size	1	Kathuria and Dash (1999)	
Culture	1	UK Code of CG PROV 2	
Board independence	5	UK Code of CG PROV 9, 10, 11, 12	
Board duties and responsibilities	8	UK Code of CG PROV 14, 7,13, 15, 16, 18, and 19	
Board diversity and competence	4	UK Code of CG PROV 23, 22	
Board and committee meetings	3	UK Code of CG PROV 14	
Nomination committee	3	UK Code of CG PROV 17 and 20	
Board performance appraisal	3	UK Code of CG PROV 21	
Remuneration Committee	2	UK Code of CG PROV 32 and 41	
Executive director/executives' remuneration	5	UK Corporate Governance Code, Companies Act 2006, Financial Conduct Authority (FCA)	
2. Stakeholders Engagement	10	UK Code of CG PROV IV, V, III	10
3. Shareholders' Fundamental Rights	20	Companies Act 2006, UK Corporate Governance Code, Financial Conduct Authority (FCA)	20
4. Accountability and Audit	10	UK Code of CG PROV 24-31	10
5. Transparency and disclosure	25	UK Code of CG PROV 24- 31	25
Total score			**100**

4.7.1.4 Internal Corporate Governance Compliance Score of the USA

The USA's corporate governance system is birthed by several sources of authority that go back as far as 1934. The corporate governance compliance score for the USA is constructed based on the Securities Exchange Act of 1934 (Tracy and MacChesney, 1934), the Sarbanes-Oxley Act 2002 (Sarbanes and Oxley, 2002), NYSE Regulations (NYSE, 2018), American Corporate Governance Index (ACGI) (AII, 2019), and 20/OECD Governance Principles. Five areas of corporate governance were used, and these are the role and responsibilities of the governing body (corporate board), shareholder rights, stakeholder engagement, risk accountability and audit, and transparency and disclosure. Table 7 below summarizes the corporate governance categories (number of questions in brackets) and the source of each governance measure. Table 7 presents the internal governance measures for the USA and the scores assigned.

Table 7: Corporate governance compliance scoring tool for USA companies

Corporate governance category	Number of questions	Source documents for Corporate governance items	Score
1. Role of the corporate board and responsibilities			39
Board size	1	Securities Exchange Act of 1934,	
Board independence	2	NYSE Reg Sec 802 (a)	
Leadership and independence	4	NYSE CG Code Guide	
Board Competencies and Diversity	2	NYSE CG Code Guide	
Board duties and responsibilities	2	NYSE Reg Sec 802 (f),	
Board and committee meetings	4	NYSE Reg Sec 802 (c)	
Nominating Committee	8	NYSE Reg Sec 804	
Board and individual director appraisal	3	NYSE Reg Sec 804	
Remuneration Governance	7	NYSE Reg Sec 805	
2. Shareholder rights	16	NYSE Reg Sec 402, 501, 700-709	16
3. Stakeholder engagement	12	NYSE CG Code	12

		Guide	
4. Accountability and Audit	10	NYSE Reg Sec 803, 603-605; 610-616	10
5. Transparency and Disclosure	24	NYSE Reg Sec 201, Sec 704, SOX 401	23
Total Score			**100**

4.7.2 Institutional Quality (IQM)

Institutional quality is a measure of the country's institutional quality environment. The measures used to determine the IQM are voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, the rule of law, control of corruption, and the average percentile rank of institutional quality measures. The scores for these measures were obtained from the *World Bank* database. The institutional quality for a country was computed as the mean of the percentile ranks of the six elements as follows:

$$IQM = \frac{\Sigma_{pi}}{n} \qquad \textbf{Equation 7}$$

4.7.3 Firm Performance

Firm performance refers to the overall effectiveness and efficiency with which a company achieves its goals. Various metrics are used to assess performance. In this analysis, three metrics are used, and these are ROE, Tobin's, and stock market liquidity. All these three measures are included in the analysis because they measure company performance from different angles.

Return on Equity (ROE) serves as an indicator of a company's profitability and efficiency in utilizing its equity capital, offering insights into how effectively a firm generates earnings from shareholders' equity (Brealey et al., 2017). ROE is computed by dividing a company's net income by shareholders' equity, indicating the return generated on shareholders' investments.

Stock liquidity refers to the ease with which securities are traded (Amihud & Mendelson, 1986). Stock liquidity is calculated as a log of the proportion of the total number of shares transacted divided by the number of shares outstanding at the end of a given period (Jayaraman & Milbourn, 2012). Stock

liquidity is used because it is the most natural measure of liquidity as it yields the sharpest empirical implications when working with asset-market equilibrium models (Biswas, 2020; Sidhu & Kaur, 2019). In addition, by considering the proportion of traded shares to shares outstanding, it covertly takes care of firm size and allows comparisons of firms across a wide horizon because turnover involves expressing shares traded as a proportion of shares outstanding (Lo & Wang, 2000). The higher the ratio, the better for the company. Stock liquidity is computed in this study as follows:

Tobin's Q ratio is the market measure of a firm's performance. The ratio estimates the ability of the firm to replace its assets using the net proceeds from the sale of shares (Chung & Pruitt, 1994; Wang, 2015). Additionally, since the study aimed at establishing the effect of the constructed corporate governance compliance score on firm performance, Tobin's Q is, therefore, the most suitable measure of firm performance since it is forward-looking and is an expression of investors' expectations (Harrigan et al., 2018; Hassan & Marston, 2019; Hassanein & Hussainey, 2015). According to Black, Jang and Kim, (2006), Tobins'Q was computed by dividing the market value of outstanding shares plus the market value of debt by the book value of total assets.

A company with a Tobin's Q greater than 1 is said to have a better investment chance than one with Tobin's Q below 1 (Lang, et al., 1989). Companies with high Tobin's Q exhibit high growth potential and it is an indicator that management utilizes the assets under its control well (Wolfe, 2005). Data to compute Tobin's Q for all companies was downloaded from DataStream (Thomson Reuters, 2021).

4.7.4 Economic Growth

The gross domestic product (GDP) growth rate was used as a proxy for economic growth. The growth rate in GDP indicates the change in a country's gross domestic product compounded annually (Bank of Canada, 2020). The GDP Growth rate is calculated as follows:

$$\text{Growth Rate in GDP} = (\text{GDP } 2 - \text{GDP } 1) / \text{GDP } 1 \qquad \textbf{Equation 8}$$

Utilizing the growth rate in Gross Domestic Product (GDP) is essential in a study investigating the influence of corporate governance on economic growth for several methodological and analytical reasons. As one of the most widely used indicators, GDP provides a dynamic and relative measure that captures changes in a country's overall economic output over time. This approach allows the adoption of a nuanced perspective, and understanding of how economic growth evolves under the influence of corporate governance practices (Mankiw, 2014). This dynamic perspective is crucial because corporate governance practices may exert their effect over time, influencing economic growth trends. The growth rate facilitates a temporal analysis, enabling the capture of cumulative effects on economic development (Claessens & Yurtoglu, 2013).

The role of GDP growth as a measure of economic growth in this study is to provide a comprehensive and macroeconomic perspective, that enables cross-country comparisons of the effects of governance measures and offers insight into long-term implications of corporate governance compliance in emerging and developed economies. Data relating to GDP growth is found on the World Bank website (World Bank, 2022).

4.7.5 Control variables

4.7.5.1 Inflation

Inflation is a macroeconomic indicator that exerts substantial influence on both micro-level dynamics within individual firms and the broader economic landscape (Blanchard & Johnson, 2012). Inflation can impact the purchasing power of consumers and businesses. The inclusion of inflation as a control variable is critical in isolating the impact of corporate governance on firm performance, addressing broader economic influences, and ensuring that the observed relationship between governance, firm performance, and economic growth is not confounded by inflation-induced fluctuations in the economy. Inflation values were obtained from the *World Bank* database (World Bank, 2022).

4.7.4.2 Foreign Domestic Investment

While the acknowledged influence of corporate governance practices on these outcomes is undeniable (Claessens and Gillis, 2003), a failure to recognize the substantial role played by foreign direct investment (FDI) can introduce considerable biases and impede the attainment of a comprehensive understanding of causative dynamics. Research has shown a positive reciprocal relationship between Foreign Direct Investment (FDI) and GDP growth, indicating how external investments can impact economic performance exponentially (Hai-ming, 2008). Foreign Direct Investments values were obtained from the *World Bank* database (World Bank, 2022).

4.7.4.3 Population Growth

Population growth affects firm performance in many ways. A growing population can lead to increased demand for goods and services, potentially benefiting firms by expanding their customer base. Additionally, population growth can influence factors like consumer preferences, workforce availability, and market competition, all of which can have implications for firm performance. Similarly, population growth affects economic growth through channels such as labor supply, consumption patterns, demand for goods and services, and overall market dynamics (Haseeb et al., 2019)

4.7.4.4 Firm Size

The first control variable is the firm size whose proxy was the total assets of a firm. Black et al., 2006a defined firm size as the log of total assets ln(assets). Using the log of total assets can capture the direct relationship between Tobin's Q and firm size. Given that large firms incur prohibitive costs of corporate governance compliance (audit and assurance costs, costs due to complex operations, public scrutiny, political and regulatory alignment cots), on top of increased agency problems (Al-Malkawi et al., 2014; Jackling & Johl, 2009; Klapper & Love, 2004). It is expected that the coefficient of firm size will be positive (Beiner et al., 2006; Elmagrhi et al., 2020; Mohapatra, 2017) in the specified model. Firm size is measured as the log of total assets.

Data for this variable was obtained from DataStream (Thomson Reuters, 202).)

4.7.4.5 Firm Age

Huang et al., 2013 suggest that firm age influences the relationship between organizational innovation, learning, and performance, with older companies potentially exhibiting different dynamics compared to younger firms. Several studies (e.g., Loderer and Waelchli, 2010; Pástor and Pietro, 2003; Pillai and Al-Malkawi, 2018; Shumway, 2001) used firm age as a control variable to account for the influence of maturity, stability, industry-specific learning, institutionalization of governance practices and risk management practices on the observed relationship between CG and financial performance nexus. In this study, firm age is defined as the number of years (plus 1) the company has been in existence since it was listed (Loderer & Waelchli, 2010; Pástor & Pietro, 2003; Shumway, 2001). One is added to the number of years since listing to avoid firms with 0 as firm age.

4.7.4.6 Liquidity Ratio

Including liquidity proves highly beneficial for both external and internal analysts owing to its influence on the day-to-day operations of firms (Elangkumaran & Karthika, 2013). The significance of liquidity for a company's performance can significantly affect its profitability (Zygmunt, 2013). The ratio compares a company's current assets to its current liabilities. It indicates whether a company has enough short-term assets to cover its short-term debts. A higher current ratio suggests better liquidity (Farooq & Bouaich, 2012). Liquidity serves as a fundamental prerequisite for firms, indicating their capability to fulfill short-term obligations. Liquidity ratios help investors, creditors, and analysts evaluate the financial health, risk, and operational efficiency of a company by assessing its ability to manage short-term financial obligations (Durrah et al., 2016). Data for computing liquidity ratios was obtained from DataStream.

4.7.4.7 Hofstede Uncertainty Avoidance Index

To capture the effect of national culture on firm performance and economic growth, the Hofstede uncertainty avoidance index is included as a proxy for national culture. Uncertainty avoidance is the degree to which individuals within a culture feel uneasy or threatened by ambiguous or uncertain situations. It reflects people's inclination to either embrace or reject unforeseen events or circumstances. Societies with high uncertainty avoidance seek to alleviate the stress and anxiety associated with uncertainty by pursuing conditions of safety and security (Hofstede, 2001). This preference often translates into a leaning towards debt over equity financing (Licht, 2001) and a financial system, while cultures characterized by low uncertainty avoidance show a preference for equity financing. Equity financing, in this context, leans more towards transactions as opposed to relationships, often involving numerous small, uninformed investors (Griffin et al. (2014). On the contrary, cultures that are high in uncertainty avoidance are more reliant on banks rather than the stock market (Kwok and Tadesse, 2006) in addition to having large shareholders, reducing the need for practices that enhance a firm’s public image and reputation (Griffin et al. (2014). The lower the index, the lower the individuals within a culture feel uneasy or threatened by ambiguous or uncertain situations. Information on the uncertainty avoidance index was obtained from (clearlycultural.com/geert-hofstede-cultural-dimensions/uncertainty-avoidance-index/ website.

Chapter Summary

The chapter discussed the research philosophy, research approach, research design, data and methodology, and data analysis. The chapter began by presenting the research's philosophical assumptions, including discussions on ontology and epistemology. The chapter explained the research design adopted by the study and the rationale for adopting the designs. Also, the chapter discussed the type of data used in the study, methods of collecting data, the sampling strategy, and data analysis techniques. The chapter also discussed model diagnostic tests, and detailed description of the variables used in the study. The chapter concludes with a summary that encapsulates the key points

discussed. The next chapter presents the descriptive and bivariate results derived from the analysis process.

CHAPTER FIVE

RESEARCH FINDINGS

5.1 Introduction

This chapter presents the empirical findings related to the hypotheses developed in Chapter 3. The chapter is organized as follows. Section 5.2 presents univariate analysis, while Section 5.3 presents the correlation results between the study variables. Section 5.4 presents the empirical results for all the hypotheses tested, while Section 5.5 presents the robustness results, and Section 5.6 discusses the major study findings. Lastly, Section 5.7 discusses the contribution of study to the body of knowledge. The chapter ends with a conclusion.

5.2 Univariate Analysis

Table 5.1 presents the univariate analysis of selected emerging (South Africa and India) and developed (the United Kingdom and the USA) economies. Panel A shows that South African companies had the highest mean internal corporate governance compliance of 96%, followed by the USA at 95%, the UK at 89%, and India at 72%. The high standard of corporate governance compliance in South Africa can be attributed to King IV, which mandates all JSE-listed companies to adhere to the country's governance codes. Likewise, the strong compliance rates in the USA can be linked to the corporate governance standards set forth by the Securities Exchange Act of 1934, the Sarbanes-Oxley Act of 2002, and the governance principles of the NYSE and OECD. In terms of institutional quality, the UK had the highest score of 88%, followed by the USA at 85%, South Africa at 59%, and India at 44%. All the sample countries exhibit robust internal governance, which is compromised by institutional quality factors. Nonetheless, the detrimental effects of weak institutional quality are more accentuated in emerging market countries.

In terms of firm performance metrics, India led with the highest mean Tobin’s Q of 2.09, followed by the USA (1.47), South Africa (1.18), and the UK (1.14). Meanwhile, the USA topped the list in terms of mean ROE at 43.47%,

trailed by the UK (27%), South Africa (24.6%), and India (20%). These figures suggest that while USA companies were the most profitable among the four countries, Indian firms commanded a higher market value based on Tobin's Q. In addition, the USA registered the highest stock turnover rate at 2.03, outpacing the UK (1.71), South Africa (1.67), and India (1.6). This implies that the USA stocks were the easiest to trade among all the sample economies. When it comes to the mean age of firms, South Africa led at 32.57 years, followed closely by the USA at 32.00 years, the UK at 28.32 years, and India at 24.58 years. Indian companies recorded the highest average firm size at $3,632 million, followed by USA firms at $1,389 million, UK firms at $347.12 million, and South African firms with an average size of $81.05 million.

On a macroeconomic level, India led with the highest GDP growth rate of 6% compared to an average growth rate of 2% for the USA, the United Kingdom, and South Africa. In terms of inflation, India and South Africa reported rates of 6% and 5% respectively, while the USA and the United Kingdom averaged a 2% inflation rate. The USA attracted the most foreign direct investment (FDI) at $3.237 trillion, followed by the United Kingdom at $2.036 trillion. In contrast, India received $38.89 billion in FDI and South Africa attracted $3.8 billion. Additionally, all sample countries exhibited a population growth rate of 1%, as illustrated in Table 8 below. Furthermore, all sample countries exhibited a population growth rate of 1%. as shown in table 8 below.

Table 8: Univariate analysis of sample countries, which are South Africa, India, The USA, and the UK

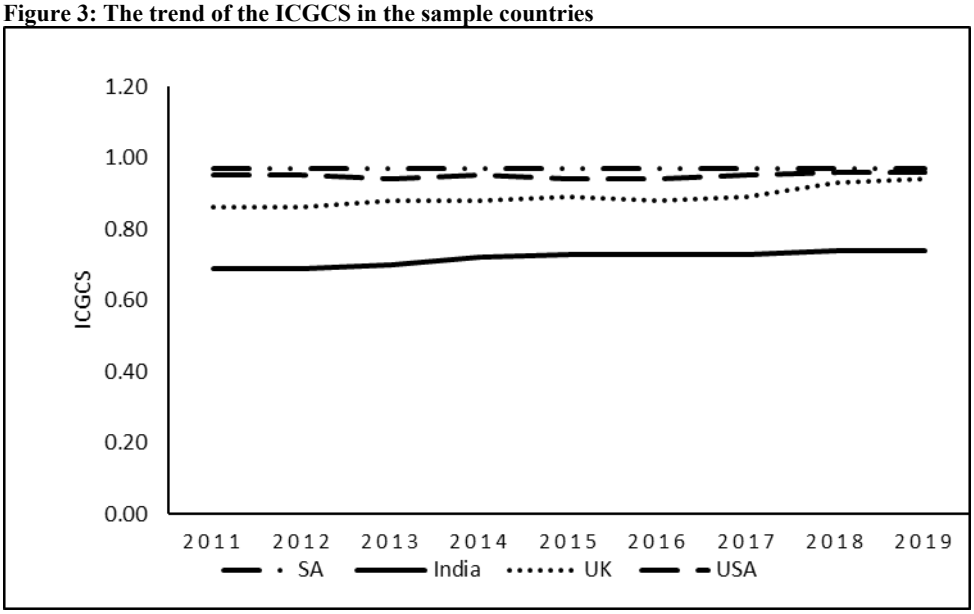
Variable	Mean	Median	Maximum	Minimum	Std Deviation
Panel A: South Africa N = 1000					
ICGCS	0.96	0.97	1	0.92	0.02
IQM	0.59	0.59	0.61	0.57	0.01
Interacting Variable	0.57	0.57	0.61	0.52	0.01
Tobin's Q	1.18	0.77	12.16	-0.39	1.42
ROE (%)	24.62	19.26	297.28	-182.74	31.16
Stock liquidity	1.67	0.74	36.68	0.001	4.63
Firm age	32.57	24	124	1	0.01
Total Assets in millions (Firm size)	82.05	0.77	1,215.51	14.02	149.79
Growth in GDP	0.02	0.02	0.03	0.02	0.00
Inflation	0.05	0.05	0.06	0.04	0.01
FDI (USD billions)	3.80	4.63	8.23	1.52	1.70

Population growth rate	0.01	0.02	0.02	0.01	0.00
Panel B: India n=1000					
ICGCS	0.72	0.73	0.87	0.42	0.06
IQM	0.44	0.46	0.48	0.41	0.03
Interacting Variable	0.32	0.32	0.42	0.17	0.04
Tobin's Q	2.04	0.54	21.23	-1.01	3.12
ROE	0.20	0.18	1.9	0.39	0.2
Stock liquidity	1.63	0.59	27.12	0.06	3.06
Firm age	24.58	19	119	1	19.47
Total Assets in millions (Firm size)	3,632.54	1,339.15	8,206.50	300.27	109.02
Growth in GDP	0.06	0.06	0.08	0.04	0.01
Inflation	0.06	0.05	0.10	0.03	0.03
FDI (USD billions)	38.89	42.12	50.61	23.99	1.23
Population growth rate	0.01	0.01	0.02	0.01	0.00
Panel C: United Kingdom n=1000					
ICGCS	0.89	0.88	0.97	0.81	0.03
IQM	0.88	0.88	0.89	0.85	0.01
Interacting Variable	0.78	0.78	0.84	0.15	0.03
Tobin's Q	1.14	0.75	11.86	0	1.44
ROE (%)	0.27	0.18	290.01	-66.15	0.33
Stock liquidity	1.71	0.68	35.8	0	4.9
Firm age	28.32	19	218	1	27.22
FIRM SIZE in millions (Firm size)	1542.12	1412.42	5,258.26	153.03	2102.80
Growth in GDP	0.25	0.28	0.42	0.01	0.10
Inflation	0.02	0.03	0.05	-	0.01
FDI (USD trillions)	2.04	2.21	2.75	1.10	1.31
Population growth rate	0.01	0.01	0.01	0.01	0.00
Panel D: United States of America n=1000					
ICGCS	0.95	0.95	1	0.86	0.02
IQM	0.86	0.85	0.89	0.82	0.02
Interacting Variable	0.81	0.81	0.85	0.7	0.03
Tobin's Q	1.47	1.22	8.34	-0.59	1.29
ROE (%)	43.47	14.35	203.20	-237.19	137.24
Stock liquidity	2.03	1.2	24.2	0.06	2.81
Firm age	32	21	123	1	25.58
Total Assets in Millions (Firm size)	1,389.17	97.98	2,687.38	143.23	27.15
Growth in GDP	0.02	0.02	0.03	0.01	0.00
Inflation	0.02	0.02	0.03	0.00	0.01
FDI (USD trillions)	2.51	2.46	2.71	2.40	0.11
Population growth rate	0.01	0.01	0.01	0.00	0.00

Figure 3 below presents the trend in compliance on the internal corporate governance compliance scores (ICGCS) for sample companies throughout the research period. South Africa consistently maintained the highest compliance levels, closely followed by the USA, with both countries reaching the same level of compliance between 2017 and 2019. The UK's compliance level trailed behind South Africa and the USA but showed improvement with the

potential of catching up with both countries after 2019. In contrast, India recorded the lowest compliance level throughout the study period. Although there was a slight improvement in 2014, it remained stagnant thereafter, showing no signs of aligning with the compliance levels of the other three sample countries. The overall improvement in compliance levels around and after 2014 could be attributed to the new corporate governance frameworks promoted by the OECD and the International Corporate Governance Network (ICGN).

Figure 3: The trend of the ICGCS in the sample countries



5.3 Correlation Results

Results in Panel A of Table 9 show the correlation matrix of the variables used in the analysis, highlighting significant correlations both within and between variables. In South Africa, the Internal Corporate Governance Compliance Score (ICGCS) showed a positive correlation with the interacting variable (0.49). This relationship can be attributed to the fact that the interacting variable comprises both the ICGCS and IQM. Additionally, the ICGCS showed a positive correlation with GDP growth (coefficient = 0.06) at a 10% significance level. Conversely, the interacting variable had a negative correlation with GDP growth (-0.43) at a 1% significance level. The IQM displayed a positive correlation with GDP growth (0.59) at a 1% significance

level. Age demonstrated a negative correlation with both population growth (coefficient = -0.10) and inflation (coefficient = -0.08), both significant at the 1% level. FDI showed a negative correlation with GDP growth (coefficient = -0.16) but was positively correlated with the IQM (coefficient = 0.20), population growth (coefficient = 0.17), and inflation (coefficient = 0.11), all significant at the 1% level. In addition, GDP growth had negative correlations with population growth (coefficient = -0.21), inflation (coefficient = -0.40), and the IQM (coefficient = 0.19), all significant at the 1% level. Population growth displayed a positive correlation with inflation (coefficient = 0.64) at a 1% significance level. Lastly, the liquidity ratio was positively correlated with Return on Equity (ROE) (coefficient = 0.27) at a 5% significance level, Tobin's Q (coefficient = 0.22) at a 1% significance level, and stock liquidity (coefficient = 0.16) at a 5% significance level.

Panel B of Table 9 shows the correlation matrix of the variables for India. The analysis shows that the Internal Corporate Governance Compliance Score (ICGCS) exhibited a negative correlation with the interacting variable (-0.71) at a 1% level of significance. This relationship can be attributed to the fact that the interacting variable comprises both the ICGCS and IQM. In addition, the ICGCS had a negative correlation with ROE (-0.04), and the IQM (-0.30) all at a 1% level of significance. However, the ICGCS had a positive correlation with stock liquidity (0.08), and firm size (0.09) at a 1 percent level of significance.

Moreover, the interacting variable (ICGCS*IQM) had a positive correlation with the FDI (0.49) and IQM (0.75) at a 1% level of significance. On the contrary, the interacting variable had a negative relationship with growth in GDP (-0.09), ROE (-0.01) at a 5% level of significance, and Tobin's Q (0.12) at a 1% level of significance. Conversely, the interacting variable had a negative correlation with Tobin's Q (-0.12), and growth in GDP (-0.09) at a 1% significance level. Likewise, the IQM displayed a negative correlation with ROE (-0.06), Tobin's Q (-0.02), and stock liquidity (-0.03) at a 1% level of significance. However, the IQM had a positive correlation with FDI (0.63) at a 1% level of significance.

Panel C of Table 9 presents correlation results for the UK. Findings show that the ICGCS has a positive correlation with ROE (0.04), stock liquidity (0.06), and liquidity ratio (0.02) at a 1% level of significance. Similarly, the ICGCS correlated positively with firm size (0.10), the interacting variable (0.76), growth in GDP (0.53), and the IQM (0.43) all at a 1% level of significance. However, the ICGCS had a negative correlation with FDI (0.55) at a 1% level of significance. It is also noted that the interacting variable has a positive correlation with GDP growth (0.30) at a 1% level of significance, firm size (0.09), Tobin's Q (0.03), and the liquidity ratio (0.51) at 5% level of significance, respectively. Lastly, results in Panel C show that the IQM had a positive correlation with the FDI (0.76), population growth (0.70), stock liquidity (0.05), and Tobin's Q (0.04) at a 1% level of significance. Equally, the institutional quality measure was positively correlated to ROE (0.01) at a 5% level of significance. On the contrary, the IQM negatively correlated with ICGCS at a 1% level of significance.

Lastly, Panel D shows the correlation results for the USA. Results show that the ICGCS was positively associated with stock liquidity (0.09), and growth in GDP at 5% and 10% levels of significance. Similarly, the score was positively associated with liquidity ratio (0.12) and GDP growth (0.06) at a 10% level of significance, the IQM (0.47), and the interacting variable (0.86) at a 1% level of significance. On the contrary, the ICGCS was negatively associated with FDI (-0.15), and firm size (-0.07) at 1% and 5% levels of significance, respectively. Further, it can be noted that the interacting variable is positively associated with growth in GDP (0.12), stock liquidity (0.15), and the IQM (0.33), inflation (0.17) at a 1% level of significance. In addition, the interacting variable has a positive correlation with Tobin's Q at a 5% level of significance. However, the variable has a negative correlation with firm size (0.07), and FDI (0.17) at 1% percent levels of significance. Regarding the IQM, the variable was positively associated with growth in GDP (0.14), population growth (0.47), and stock liquidity (0.14) at 1% levels of significance. The measure was also positively associated with Tobin's Q (0.09) albeit at a 5% level of significance. Lastly, the institutional quality measure had a negative association with firm size (0.05) at a 1% level of significance.

The VIF and tolerance were used to test multicollinearity. Appendix II shows that there is no multicollinearity problem among variables for all the countries.

Table 9 Correlation Matrix

Variables	AGE	ICGCS*IQM	FDI	G_ GDP	G_POP	ICGCS	INFL'N	ROE	SL	F-SIZE	TQ	L_RATIO	IQM
PANEL A: SOUTH AFRICA													
AGE	1												
(ICGCS-*IQM	-0.02	1											
FDI	-0.01	0.14[a]	1										
G_ GDP	0.11	-0.43[a]	-0.16[a]										
G_POP	-0.01[a]	0.36[a]	0.17[a]	-0.21[a]	1								
ICGCS	0.02	0.64[a]	-0.03	0.06[c]	-0.05	1							
INF'N	-0.08[b]	0.16[a]	0.40[a]	-0.40[a]	0.64[a]	-0.02	1						
ROE	0.01	0.02	-0.05	-0.01	-0.71	0.22[a]	-0.01	1					
SL	-0.18[a]	0.01	-0.12	0.15	0.13	0.03[b]	0.01	-0.01	1				
FIRM SIZE	-0.02	-0.10[a]	-0.51	-0.05	-0.09[b]	-0.12[a]	-0.05	-0.12[a]	0.05	1			
TQ	0.12[a]	-0.02	-0.01	-0.03	-0.02	0.19[a]	-0.01	0.32[a]	(-0.07)[c]	-0.29[a]	1		
L' RATIO	0.41	0.23	0.11	0.25	0.46	0.13	0.41	0.27[c]	0.16[b]	0.52	0.22[a]	1	
IQM	-0.03	0.76[a]	0.20[a]	0.19[a]	0.52[a]	-0.01	0.23[a]	-0.21	-0.41[c]	-0.05	-0.02	0.33	1
PANEL B: INDIA													
AGE	1												
(ICGCS*IQM	0.25[a]	1											
FDI	0.15[a]	0.49[a]	1										
G_ GDP	0.03	-0.09[b]	0.09[b]	1									
G_POP	0.20[a]	0.80	0.21[a]	0.12[a]	1								
ICGCS	--0.22[a]	-0.71[a]	-0.51[a]	0.38[a]	0.45[a]	1							
INF'N	-0.06	-0.04	-0.03	-0.02	0.09[b]	0.06	1						
ROE	-0.03	-0.01[b]	-0.01	-0.06[c]	0.03	-0.04[a]	0.03	1					
SL	-0.14[a]	0.04	0.16	-0.02	0.09	0.08[a]	-0.06	0.07[c]	1				
F-SIZE	0.05	0.10	0.12	0.01	0.16	0.09[b]	-0.02	-0.05	-0.11[a]	1			
TQ	0.15	-0.12[a]	0.09	0.44	0.06	-0.14[c]	0.08	0.07[a]	0.31[c]	0.51	1		
L' RATIO	0.12	0.04	0.08	0.08	0.07	0.15	0.14	0.91	0.52	0.74	0.05[c]	1	
IQM	0.21	0.75[a]	0.63[a]	0.03	-0.28	0.30[a]	-0.87	-0.06[c]	-0.03[a]	0.03	-0.02[b]	0.14	1
PANEL C: UK													

AGE	1												
(ICGCS-*IQM)	0.05	1											
FDI	-0.09[b]	-0.26[a]	1										
G_ GDP	-0.11[a]	0.30[a]	0.75[a]	1									
G_POP	-0.03	-0.06	0.46[a]	0.58[a]	1								
ICGCS	0.10[a]	0.76[a]	-0.55[a]	0.53[a]	-0.30	1							
INF'N	-0.10[a]	-0.35[a]	-0.21[a]	-0.19[a]	-0.55[a]	-0.26	1						
ROE	0.03	0.04	0.03	0.06[c]	0.03[a]	0.04[b]	0.02	1					
SL	0.05	0.01	-0.08	0.07	-0.01	0.06[a]	0.01	-0.05	1				
F-SIZE	0.06[c]	0.09[b]	-0.05	-0.05	-0.03	0.12[a]	-0.03	-0.19[a]	0.16[a]	1			
TQ	-0.13[a]	0.03[b]	-0.01	0	0.04[a]	0.01	-0.04	0.38[a]	-0.11[a]	-0.39[a]	1		
L' RATIO	0.77	0.51[a]	0.65	0.22	0.07	0.02[a]	0.18	0.26[c]	0.44[b]	0.74	0.4[a]	1	
IQM	-0.05	-0.08[b]	0.76[a]	0.54[a]	0.70[a]	0.43[a]	-0.49	0.01[b]	0.05[a]	-0.03	0.04[a]	0.22	1

Panel D: USA

AGE	1												
(ICGCS-*IQM	-0.01	1											
FDI	0.04	-0.17[a]	1										
G_ GDP	0.01	0.12[a]	0.34[a]	1									
G_POP	-0.07[c]	0.07	0.08[b]	0.19[a]	1								
ICGCS	0.03	0.86[a]	-0.15[a]	0.06[c]	0.15	1							
INF'N	-0.02	0.17[a]	-0.63[a]	-0.70[a]	-0.26[a]	0.16	1.00[a]						
ROE	0.01	-0.01	0.04	-0.12	-0.01	-0.03	0.11	1					
SL	-0.23[a]	0.15[a]	-0.09[a]	-0.08[b]	0.07[b]	0.09[b]	0.10[a]	-0.03	1				
F-SIZE	0.21[a]	-0.07[a]	0.02	0.07	-0.05	-0.07[b]	0.22	-0.04	-0.23	1			
TQ	-0.07	0.33[b]	-0.03	-0.14	0.43	0.16	0.04	-0.01[c]	0.14[a]	-0.05	1		
L' RATIO	0.17	0.02[c]	0.09	0.44	0.94	0.12[c]	0.09	0.41	0.08	0.24	0.07	1	
IQM	-0.07[b]	0.33[a]	0.22	0.14[a]	0.43[a]	0.47[a]	0.71	-0.01	0.14[a]	-0.05[a]	0.09[b]	0.17	1

Significance levels: a= 1%, b=5%, c = 10%

5.4 Empirical Results

5.4.1 Corporate Governance Compliance by Emerging and Developed Economies

The first objective of this study was to assess the extent of adherence to corporate governance standards by companies listed in emerging (represented by South Africa and India) and developed (represented by USA and UK).

Table 10 below presents the annual and overall, of the ICGCS, along with the t-value and the p-value for sample countries. The t-test is the independent samples t-test for equality of means. As observed, none of the p-values are statistically significant. This supports the null hypothesis, suggesting that there is no significant difference between the yearly mean ICGCS values and the overall mean across the sample. Given that the probability values across all four panels exceed the common significance levels of 1%, 5%, or 10%, there is insufficient evidence to assert significant differences in the yearly means of ICGCS values compared to the overall mean over the ten years. Consequently, Hypothesis 1, which posits that companies operating in both emerging markets (India and South Africa) and developed markets (the UK and the USA) exhibit a significant level of compliance with their respective country's corporate governance standards, is supported by all countries examined. These findings corroborate the findings of Albu and Girbina (2015), Aguilera, and Cuervo-Cazurra (2009), who found codes of corporate governance compliance to have generally improved in emerging and developed countries.

Table 10: Adherence to the country's corporate governance standards

Year	Mean	Median	t-value	p-value
Panel A: South Africa				
2011	0.95	0.96	2.35	0.14
2012	0.95	0.96	0.44	0.32
2013	0.95	0.96	1.16	0.19
2014	0.95	0.96	0.80	0.16
2015	0.96	0.96	1.38	0.41
2016	0.96	0.96	0.49	0.29
2017	0.96	0.96	1.27	0.22
2018	0.96	0.96	0.87	0.16
2019	0.96	0.96	1.27	0.13
2020	0.96	0.96	0.88	0.41
Overall	0.96	0.96	1.09	0.24
Panel B: India				
2011	0.72	0.76	0.22	0.16

2012	0.72	0.76	1.29	0.27
2013	0.75	0.76	2.74	0.18
2014	0.76	0.76	0.51	0.28
2015	0.76	0.76	1.23	0.14
2016	0.75	0.76	0.29	0.54
2017	0.78	0.76	2.75	0.23
2018	0.77	0.76	0.51	0.26
2019	0.77	0.76	0.75	0.47
2020	0.78	0.76	2.52	0.32
Overall	0.76	0.76	1.28	0.29
Panel C: UK				
2011	0.87	0.89	2.28	0.36
2012	0.88	0.89	0.36	0.41
2013	0.88	0.89	1.93	0.35
2014	0.88	0.89	0.64	0.24
2015	0.89	0.89	2.28	0.28
2016	0.89	0.89	3.36	0.39
2017	0.89	0.89	0.93	0.28
2018	0.89	0.89	1.64	0.14
2019	0.89	0.89	0.96	0.17
2020	0.89	0.89	3.64	0.23
Overall	0.89	0.89	1.80	0.29
Panel D: USA				
2011	0.92	0.95	2.23	0.11
2012	0.94	0.95	0.14	0.22
2013	0.94	0.95	1.19	0.17
2014	0.95	0.95	1.26	0.29
2015	0.95	0.95	2.13	0.14
2016	0.95	0.95	0.14	0.33
2017	0.95	0.95	1.19	0.21
2018	0.95	0.95	0.26	0.26
2019	0.95	0.95	3.09	0.18
2020	0.95	0.95	2.16	0.36
Overall	0.95	0.95	1.38	0.23

5.4.2 The Relationship between ICGCS, Institutional Quality, and Firm Performance

This section presents the results of the relationship between internal corporate governance compliance scores (ICGCS) and firm performance as measured by ROE, Tobin's Q, and stock liquidity for South Africa. The J Statistic, first-order autocorrelation (AR (1), second-order correlation (AR (2) and Sargan Test are the diagnostic tests used to assess the validity, efficiency, and reliability of the estimated parameters.

Results for models I, II, and III are presented for both long-term and short-term relationships. The long-term results are computed for variables that have significant coefficients in the short-term model. Additionally, only significant results are reported in the long-run column.

Long run coefficients are obtained by regressing the dependent variable and the independent variable with the significant relationship in the short-term model.

Model 1 in Table 11 below shows a statistically significant positive relationship between ICGCS, and all firm performance measures as follows: Return on Equity (ROE = 0.7316), Tobin's Q (0.1714), and stock liquidity (0.2723) in the short term within the South African context. This finding aligns with Klapper and Love (2004), Black et al. (2006a), and Ntim (2009). Furthermore, Model 1 demonstrates that firm size exhibits a significant positive correlation with all performance metrics, including ROE (1.0454) and stock liquidity (1.6360). This observation is consistent with the findings of Rahman and Yilun (2021), who identified a positive relationship between ROE and firm size, and Ntim (2009), who reported a positive association between firm size and Tobin's Q. Lastly, the liquidity ratio in Model 1 is found to be significantly and positively correlated with both ROE (0.4352) and stock liquidity (0.7341).

Table 11: The short- and long-term relationship between firm performance (independent variable), internal corporate governance compliance score, and institutional quality in South Africa

Model I shows the relationship between firm performance (dependent variable) and the ICGCS. Model II shows the relationship between firm performance and institutional quality. Model III is a full model and includes ICGCS, IQM, and the interactive variable between ICGCS and IQM.

Variables	Model I		Model II		Model III	
	Short-run	Long-run	Short-run	Long-run	Short-run	Long-run
			Panel 1: ROE n=1000			
ROE (-1)	0.2141		0.6128		0.8305	
ICGCS	0.7489[b]				0.7316[b]	0.4215[b]
ICGCS*IQM					-0.6971[b]	
IQM			-0.4402[b]		-0.4997	
FIRM AGE	-0.7420		-0.1579		-1.0091	
FIRM SIZE	1.0454[a]		0.7585		0.2461	
LIQUIDITY RATIO	0.4352[a]		0.3797		0.7991[b]	
INFLATION	0.7376		0.8413		-0.5919[c]	
FDI	0.4042		-0.1156		0.3299	
G-POPULATION	0.4031		3.7486		0.4793	
CULTURE	0.6368		0.2180		0.5211	
J Statistic	0.2071	0.1914	0.2244	0.1421	0.2177	0.2143
AR (1)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
AR (2)	0.2804	0.2509	0.2860	0.2870	0.5124	0.2409
Sargan Test (P Value)	0. 4842	0.3080	0.6584	0.4112	0.5255	0.2140
			Panel 1: TOBIN'S Q n=1000			
TOBIN'S Q (-1)	-0.4314		-0.2327		-0.2942	

ICGCS	2.8824a				1.1714b	0.9004a
ICGCS*IQM					-0.7046c	
IQM			-0.1929b		-0.1353	
FIRM AGE	0.8922		0.5023b		0.8011a	
FIRM SIZE	1.0920		0.9014		0.8242a	
LIQUIDITY RATIO	0.6157		0.4318		0.3029	
INFLATION	-0.2989		-0.2097		-0.1471a	
FDI	0.2736		0.1919		0.1346	
G_POPULATION	0.3507		0.2460		0.1725	
CULTURE	+0.6050		0.4243		0.2976	
J Statistic	0.2102	0.1647	0.1612	0.1727	0.1804	0.2176
AR (1)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
AR (2)	0.2804	0.3180	0.2509	0.3129	0.2860	0.2533
Sargan Test (P Value)	0. 4842	0.3412	0.6584	0.2587	0.5255	0.4110
Panel 3: Stock liquidity n=1000						
STOCK LIQUIDITY (-1)	-0.0316		-0.0749		-0.2129	
ICGCS	0.8456b				0.2723b	
ICGCS*IQM					-0.5300b	
IQM	0.5227		-0.2823b		-0.5912	
FIRM AGE	-0.2459		1.5323b		1.7403a	
FIRM SIZE	1.6360a				0.3057c	
LIQUIDITY	0.7341c		0.6133		0.1512b	
INFLATION	0.6286		-0.2989		0.1069	
FDI	0.1612		0.2736		0.3851	
G_POPULATION	1.0302		0.3507		0.0234	
CULTURE	0.5826		0.6035		0.2679	
J Statistic	0.1876	0.2001	0.2110	0.1493	0.2013	0.2012
AR (1)	0.0000	0.2542	0.0000	0.0000	0.0000	0.0000
AR (2)	0. 4842	0.3589	0.6584	0.4117	0.5255	0.6075
Sargan Test (P Value)	0.2435	0.2804	0.2435	0.2509	0.2103	0.2860

Significance levels - a =1%, b =5%, and c=10%

Aligned with Ahmad (2018) and Ahmadpour and Baghban (2015), further validates the importance of liquidity in influencing firm performance. The ICGCS has a positively significant long-term relationship with ROE only. This is in line with the findings of Shank et al., (2013) who established that good corporate governance practices are likely to lead to financial success in longer time horizons for both small and large firms.

In Model II, the institutional quality measure (IQM) exhibits a significant negative relationship with all three firm performance indicators (ROE = -0.4402, Tobin's Q = -0.1929, and stock liquidity = -0.2823) in the short term within the South African context. This finding is consistent with Baumöhl and Kočenda (2022) and Ghoul et al., (2017). Furthermore, the results for South Africa indicate that firm age is positively correlated with Tobin's Q (0.5023) and stock liquidity (1.5323) in the short term. These findings align with Achim et al., (2015) and Ntim (2009). However, they diverge from the results reported by Majumdar (1997),

Doğan (2013), and Rahman and Yilun (2021) who found a negative association between firm age and firm performance.

In model III, the ICGCS maintains a consistently positive relationship with all three firm performance indicators in the short term: Return on Equity (ROE) with a coefficient of 0.7316, Tobin's Q at 1.1714, and stock liquidity at 0.2723. Moreover, the interactive variable (ICGCS* IQM) is significantly negative for all performance measures (ROE =-0.6971, Tobin's Q = -0.7046, and stock liquidity = -0.5300) which underscores how a weak institutional environment can adversely affect corporate governance quality. Liquidity ratio has a significant positive with ROE (=0.7991) and stock liquidity (=0.1512) in the short run while firm age has a significant positive relationship with both Tobin' Q (= 0.8011) and stock liquidity (=1.7403). Inflation significantly reduces ROE and Tobin's Q (ROE = -0.5919 and Tobin's Q = -0.1471 respectively) in the short run. In the long term, ICGCS exhibits a sustained relationship specifically with Tobin's Q.

Figure 5.2 illustrates this long-term association between ICGCS, ROE, and Tobin's Q. The coefficients for the long run relations were obtained by running a regression between the ICGCS and Tobin's Q. The trend has been on the upward trend since 2011 aligning with the improvements in corporate governance compliance in South Africa. It is also worth noting that the long run coefficients are less than the short run coefficients.

Figure 4: The long-run effect of ICGCS on ROE and Tobin's Q in South Africa

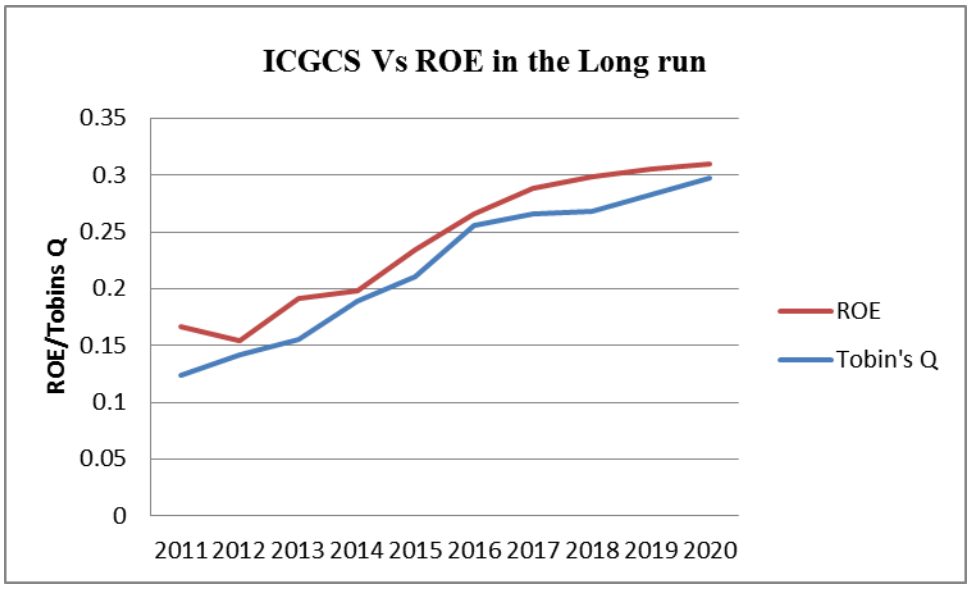


Table 12 below presents the relationship between internal corporate governance compliance score and performance in India. Again, the ICGCS has a significantly positive relationship with all the firm performance measures (ROE =0.9211, Tobin's Q =1.1294, and stock liquidity = 1.6114) only in the short run. The interactive variable has a significant and negative relationship with performance measures (ROE =-0.7314, Tobin's Q = -1.0304, and stock liquidity =-0.2424). Regarding the relationship with other factors, Model III shows that inflation significantly reduces ROE and Tobin's Q (ROE = -0.5919 and Tobin's Q = -0.1471) in the short run. Firm size positively affects ROE (=0.2401) and stock liquidity (=0.7021) but has a significant negative relationship with Tobin's (-0.8042). Liquidity ratio significantly and positively a relationship with ROE (=0.7797), Tobin's Q (=0.6901) and stock liquidity (0.4572) while inflation negatively and significantly reduces ROE (-0.5776) and Tobin's Q (=-0.9924).

Table 12: The short- and long-term relationship between firm performance (independent variable), internal corporate governance compliance score, and institutional quality in India

Model I shows the relationship between firm performance (dependent variable) and the ICGCS. Model II shows the relationship between firm performance and institutional quality. Model III is a full model that includes ICGCS, IQM, and the interactive variable between ICGCS and IQM.

Variables	Model I		Model II		Model III	
	Short-run	Long-run	Short-run	Long-run	Short-run	Long -run
			Panel 1: ROE N=1000			
ROE (-1)	0.2089		0.5979		0.4404[a]	
ICGCS	0.8167[b]				0.9211[b]	
ICGCS*IQM					-0.7314[b]	
IQM			-0.4306[a]		0.5301	
FIRM AGE	-0.7241		-0.1541		-0.9847	
FIRM SIZE	1.0201		0.7401[b]		0.2401[a]	
LIQUIDITY RATIO	0.4246[c]		0.3705		0.7797[a]	0.2144[c]
INFLATION	-0.7197		-0.4579		-0.5776[c]	
FDI	0.3944		-0.1128		0.3219	
G-POP	0.3933		0.6579		0.0476	
CULTURE			0.2127		0.5085	
J Statistic	0.2211	0.1702	0.1929	0.2044	0.2104	0.2015
AR (1)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
AR (2)	0.2640	0.2902	0.2719	0.2321	0.2061	0.2154
Sargan Test	0.5684	0.5056	0.6256	0.4290	0.5853	0.6242
			Panel 2: Tobin's Q n=1000			

TOBIN'S Q (-1)	-0.4284		-0.5427		-0.2082	
ICGCS	1.4784[a]				1.1294[b]	
ICGCS*IQM					-1.0304[c]	
IQM			-0.6521[c]		-0.2045	
FIRM AGE	0.8922		3.5323[b]	1.5249[a]	1.1711[a]	0.4211[b]
FIRM SIZE	1.0920[b]		2.5214		0.8042[a]	0.2321[b]
LIQUIDITY RATIO	0.3075		0.859		0.6901[c]	
INFLATION	-0.2149		-0.4114		0.9924	
FDI	0.6121		0.0422		0.2025	
G_POPULATION	0.0178		1.2812		0.3123	
CULTURE	0.5447		0.6431		0.6749	
J Statistic	0.1202		0.1612		0.1804	0.1247
AR(1)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
AR(2)	0.2640	0.4120	0.2719	0.3510	0.2061	0.2154
Sargan Test	0.5684	0.2345	0.6256	0.4125	0.5853	0.6242

Panel 3: Stock liquidity n=1000						
STOCK LIQUIDITY (-1)	i		0.3314		0.1207	
ICGCS	2.5752[a]				1.6114[b]	
ICGCS*IQM					-0.2424[b]	
IQM			-0.1723[b]		-0.6401	
FIRM AGE	1.5622		0.4760		1.4707[c]	
FIRM SIZE	1.0301[c]		0.5496[a]		0.7021[b]	
LIQUIDITY RATIO	0.2053[a]		0.5736		0.4572[c]	
INFLATION	-0.1435		-0.3801		-0.5218	
FDI	0.4087		-0.7227		2.2104	
G_POPULATION	0.5119		-1.0102		-0.2730	
CULTURE	0.3637		0.4294		0.4506	
J Statistic	0.1406	0.1602	0.1873	0.1724	0.1927	0.1411
AR (1)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
AR (2)	0.2425	0.4536	0.2920	0.3005	0.2782	0.2608
Sargan Test	0. 4205	0.3254	0.6403	0.4401	0.6205	0.6773

Significance levels - a =1%, b =5%, and c=10%

In the end, the liquidity ratio has a significantly positive relationship with ROE (0.2144) while firm age and size have a significantly positive relationship with Tobin's Q (0.4211 and 0.2321, respectively. Figures 5, present the trend in significant long-term relationships between ROE and the liquidity ratio. The relationship between the two variables was upward sloping until 2020 when the was a downward drop. The cause of the drop can be attributed to COVID-19, which brought a standstill in business. The positive long-term relationship

between liquidity ratios and Return on Equity (ROE) stems from their interconnected effect on operational efficiency, risk management, cost of capital, market perception, and regulatory compliance. Furthermore, maintaining a healthy liquidity position reduces financial risk, improves investor confidence, and potentially lowers the cost of capital, all contributing to sustained long-term ROE growth (Farooq & Bouaich, 2012).

Figure 5: Long-run relationship between ROE and Liquidity Ratio

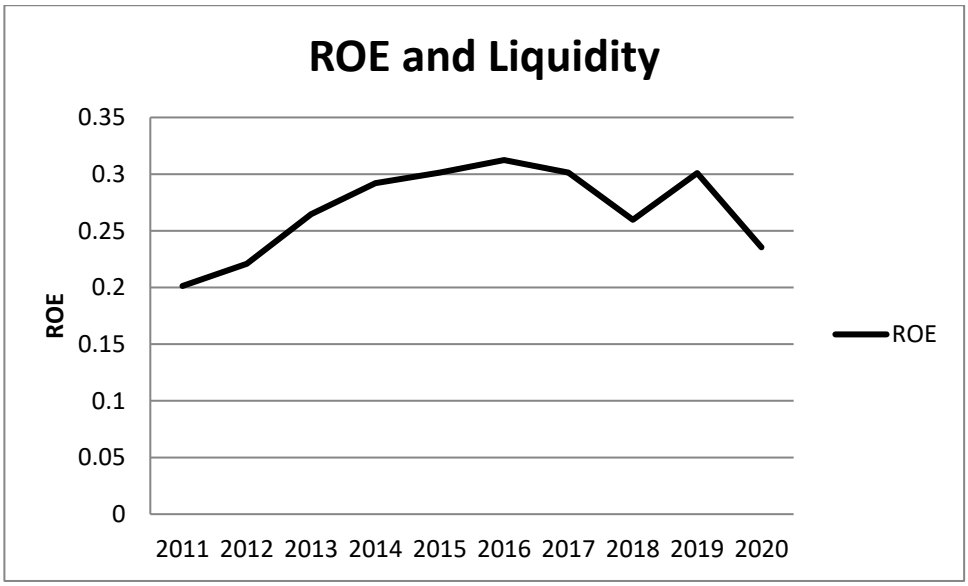


Figure 6 below shows that the effect of firm size on Tobin's Q increased at a faster rate in 2014, plateaued at Tobin's Q coefficient of 1.80 and then dropped significantly in 2020. The upward long-run relationship between firm size and Tobin's Q may be a reflection of the advantages and capabilities that larger firms possess in generating future cash flows and enhancing shareholder value. For instance, large firms may have access to resources, which can facilitate investments in research and development, innovation, and expansion into new markets, all of which contribute to higher future cash flows and firm value (Connolly, & Hirschey, 2005).

Figure 6: The long-run effect of firm size on Tobin's

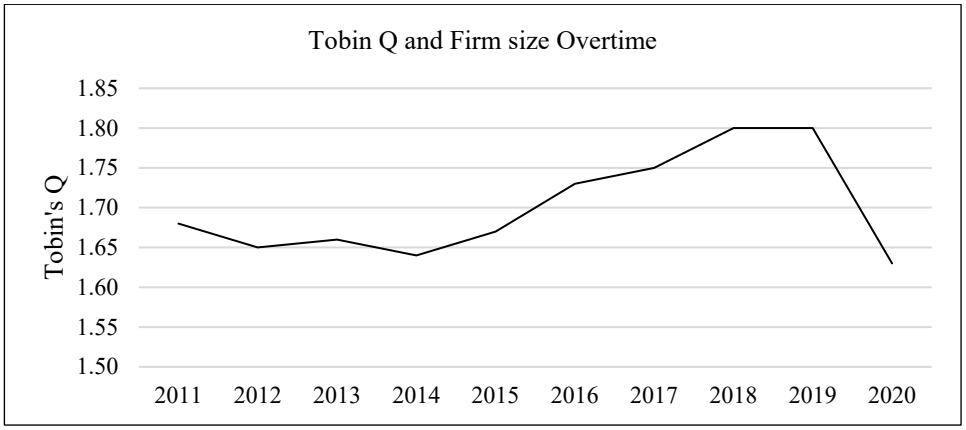


Figure 7 below shows that the relationship between Q and the ICGCS has been on the increase throughout this study. The long-run trend is upward-sloping indicating that as firms endeavor to improve corporate governance, firm value also increases. This is because effective governance including transparent reporting, ethical practices, and strong board oversight, enhances investor trust and access to capital markets, contributing to higher stock prices and lower cost of capital. This ultimately influences the long-term value of the firm (Brown & Caylor, (2006).

Figure 7: The long-run effect of ICGCS on Tobin's Q

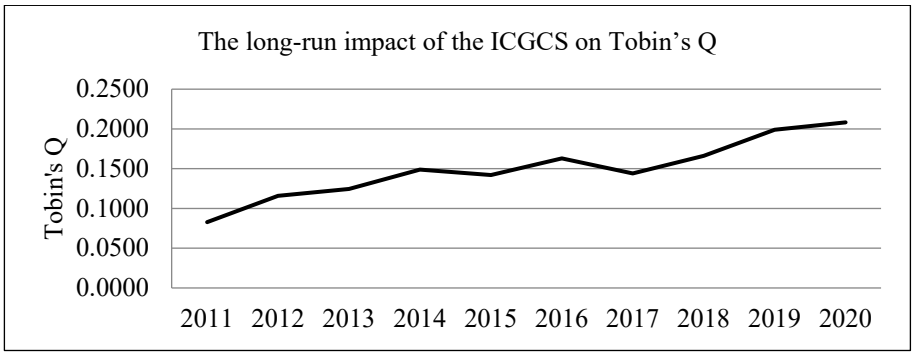


Table 13 below presents the findings regarding the relationship between firm performance, internal corporate governance compliance score (ICGCS), and institutional quality in the UK. In Model, I, the ICGCS exhibits a significantly positive association with all firm performance metrics (ROE with a coefficient of 0.7489, Tobin's Q at 1.4784, and stock liquidity at 2.5752). Moreover, firm age demonstrates a significant positive correlation with ROE (coefficient = 1.2512) corroborating the findings of Coad et al., (2013). However, firm age exhibits a significant negative correlation with stock liquidity (coefficient = -0.2459) contradicting Cheng (2007), who reported a positive association between firm size and stock liquidity. Furthermore, firm size displays a significant positive relationship with both ROE (coefficient = 0.2423) and Tobin's Q (coefficient = 0.9211). The liquidity ratio demonstrates a significant positive relationship with all firm performance measures: ROE with a coefficient of 0.2028 and Tobin's Q at 0.7733.

Table 13 The short- and long-term relationship between firm performance (independent variable), internal corporate governance compliance score, and institutional quality in the UK

Model I shows the relationship between firm performance (dependent variable) and the ICGCS. Model II shows the relationship between firm performance and institutional quality. Model III is a full model and includes ICGCS, IQM, the interactive variable between ICGCS and IQM

Variables	Model I		Model II		Model III	
	Short-run	Long-run	Short-run	Long-run	Short-run	Long-run
Panel 1: ROE n=1000						
ROE (-1)	0.7619		0.9631		0.4895	
ICGCS	0.7489[b]				0.3048[b]	
ICGCS*IQM					0.2746[b]	
IQM			0.5631[a]		0.3742	
FIRM AGE	1.2512c		-0.6924		1.0137	
FIRM SIZE	0.2423[b]		0.6631[b]		0.6631[b]	
LIQUIDITY RATIO	0.2028[b]		0.3797		0.2631[a]	
INFLATION	0.2631		-0.4597[a]		0.2869	
FDI	0.5227		-0.1156		0.3631	
G-POPULATION	0.7962		0.0963		0.1493	
CULTURE	0.4170		0.7631		0.5631	
J Statistic	0.1620	0.1455	0.1491	0.1921	0.1264	0.1417
AR (1)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
AR (2)	0.2425	0.2201	0.2920	0.3020	0.2782	0.2608
Sargan Test	0. 4205	0.6403	0.6403	0.6403	0.6205	0.6773
Panel 1: Tobin's Q n=1000						
TOBIN'S Q (-1)	-0.4726		-0.2775		-0.5434	
ICGCS	0.5243[c]				0.5740[b]	
ICGCS*IQM					0.3561[c]	
IQM			0.2068[b]		0.5504	

FIRM AGE	0.5928		1.5023		0.4206[c]	
FIRM SIZE	0.9211[b]		0.2214[b]		0.3303[b]	
LIQUIDITY RATIO	0.7733[a]		0.4116		0.3029[b]	
INFLATION	-0.5195		-0.2035[a]		-0.3714	
FDI	0.9846		0.6132		-0.0125	
G_POPULATION	0.4493		0.5869		0.5142	
CULTURE	0.6904		0.4201		0.2038	
J Statistic	0.1610	0.2011	0.1429	0.1694	0.2104	0.1702
AR (1)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
AR (2)	0.2425	0.2920	0.2782	0.3346	0.2425	0.2608
Sargan Test	0.4205	0.6403	0.6205	0.6598	0. 4205	0.6773
		Panel 1: Stock liquidity n=1000				
STOCK LIQUIDITY (-1)	-0.0316		-0.0749		-0.2129	
ICGCS	0.8456[a]				0.2723[b]	
ICGCS*IQM					0.5307	
IQM	0.5227		0.2823[a]		0.5912[a]	
FIRM AGE	-0.2459[a]		3.5323[c]		1.7403	
FIRM SIZE	1.6360		0.1281[b]		0.1137[b]	
LIQUIDITY RATIO	0.7341[b]		0.6133		0.1512[b]	
INFLATION	0.6286		-0.2989		0.1069	
FDI	0.1612		0.2736		0.3851	
G_POPULATION	1.0302		0.3507		0.0234	
CULTURE	0.5826		0.6035		0.2679	
J Statistic	0.1221	0.1712	0.1901	0.1913	0.1346	0.1470
AR (1)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
AR (2)	0.2425	0.2575	0.2425	0.2903	0.2425	0.2608
Sargan Test	0. 4205	0.3309	0. 4205	0.2272	0. 4205	0.6773

Significance levels - a =1%, b =5%, and c=10%

In Model II, the institutional quality measure (IQM) demonstrates a significant positive relationship with all three firm performance indicators in the short term in the UK (ROE with a coefficient of 0.5631, Tobin's Q at 0.2068, and stock liquidity at 0.2823). This observation is consistent with the findings of Chang (2023), Yasar et al. (2011), and Winful et al. (2016). In addition, firm size exhibits a significant positive relationship with ROE (coefficient = 0.6631), Tobin's Q (coefficient = 0.2214), and stock liquidity (coefficient = 0.1281) in the short run. These results align with the conclusions drawn in studies by Achim et al., (2015) and Ntim (2009). Furthermore, inflation displays a significant negative correlation with both ROE (coefficient = -0.4597) and Tobin's Q (coefficient = -0.2035) in the short term. This finding contradicts the results of Pacini et al. (2017) who reported a positive impact of inflation on firm performance in the UK.

In Model III, ICGCS demonstrates a significant positive relationship with all firm performance metrics in the short term (ROE with a coefficient of 0.3048, Tobin's Q at 0.5740,

and stock liquidity at 0.2723). These results align with prior studies such as Kaur and Vij (2018), Lai and Choi (2014), and Mishra et al. (2021), which also found a positive impact of corporate governance indices on firm performance. Moreover, the interactive variable between ICGCS and IQM yields a significant positive effect on both ROE (coefficient = 0.2746) and Tobin's Q (coefficient = 0.3561). Regarding other factors, firm size exhibits a positive relationship with ROE (coefficient = 0.6631), Tobin's Q (coefficient = 0.3303), and stock liquidity (coefficient = 0.1137) in the short term. Furthermore, both the IQM (coefficient = 0.5912) and the liquidity ratio (coefficient = 0.1512) display a positive relationship with stock liquidity, supporting Winful et al., (2016). The liquidity ratio shows a significant positive relationship with all firm performance measures: ROE with a coefficient of 0.1512, Tobin's Q at 0.3029, and stock liquidity at 0.1512. These findings are consistent with Ahmad (2018) and Ahmadpour and Baghban (2015). Interestingly, no variable has a long-term significant relationship with firm performance in the UK

Table 14 shows results on the relationship between firm performance, internal corporate governance compliance score (ICGCS), and institutional quality in the USA. In Model I, the results indicate a significantly positive correlation between ICGCS and all firm performance indicators. ROE with a coefficient of 0.6859, Tobin's Q at 0.4802, and stock liquidity with 0.7745. This aligns with the findings of Brown and Caylor (2006) and Berglund (2019). In addition, Model I reveals that firm size exhibits a significant and positive association with ROE, evidenced by a coefficient of 0.2219, consistent with the research by Ayuba et al., (2019). Moreover, the liquidity ratio demonstrates a significant and positive relationship with all firm performance metrics: ROE at 0.1858, Tobin's Q at 0.7083, and stock liquidity at 0.6724. These results corroborate the findings of Ahmadpour and Baghban (2015) and Ahmad (2018).

In Model II, the results indicate a significant and positive relationship between the IQM and firm performance metrics in the USA. Specifically, the coefficients for ROE, Tobin's Q, and stock liquidity are 0.5631, 0.2068, and 0.2823, respectively. This aligns with the research findings of Chang (2023) and Yasar et al., (2011). Furthermore, the results reveal that firm size has a significant and positive correlation with ROE, with a coefficient of 0.5127, in the short run. This is consistent with Achim et al., (2015) and Ntim (2009). However, it is

noteworthy that firm size exhibits a significant negative relationship with Tobin's Q, indicated by a coefficient of -0.2028, in the short run. This result is in line with the findings of Banchuenvijit and Phuong (2012). Additionally, the results show that inflation is negatively correlated with ROE in the short run, with a coefficient of -0.4211. This finding contradicts the results of Pacini et al. (2017), who reported a positive effect of inflation on firm performance in the USA.

In model III, the results continue to demonstrate a significant and positive relationship between the ICGCS and all firm performance indicators in the short run. Specifically, the coefficients for ROE, Tobin's Q, and stock liquidity are 0.3048, 0.5257, and 0.2494, respectively. These findings align with prior research, including studies by Kaur and Vij (2018), Lai and Choi (2014), and Mishra et al. (2021), which have also highlighted the positive effect of the corporate governance index on firm performance. The interactive variable between IQM and ICGCS (IQM * ICGCS) exhibits a significant positive relationship with ROE, indicated by a coefficient of 0.2515. However, it does not have a significant effect on Tobin's Q and stock liquidity. Additionally, IQM itself shows a significant and positive relationship with Tobin's Q, with a coefficient of 0.5041, supporting the findings of Chang (2023).

Table 14 The short- and long-term relationship between firm performance (independent variable), internal corporate governance compliance score, and institutional quality in the USA

Model I shows the relationship between firm performance (dependent variable) and the ICGCS. Model II shows the relationship between firm performance and institutional quality. Model III is a full model and includes ICGCS, IQM, the interactive variable between ICGCS and IQM

Variables	Model I		Model II		Model III	
	Short-run	Long-run	Short-run	Long-run	Short-run	Long-run
			Panel 1: ROE n=1000			
ROE (-1)	0.1961		0.8175		0.5138	
ICGCS	0.6859[b]				0.2791[a]	
ICGCS*IQM					0.2515[b]	
IQM			0.4215[c]		0.3427	
FIRM AGE	1.1460		-0.6342		-0.9285	
FIRM SIZE	0.2219[a]		0.5127[a]		0.6074[b]	0.4504[b]
LIQUIDITY RATIO	0.1858[a]		0.3478		0.2409[b]	
INFLATION	0.2410		-0.4211[a]		0.2628	
FDI	0.4788		-0.1058		0.3326	
G-POPULATION	0.7293		0.0882		0.1367	
CULTURE	0.3819		0.6989		0.5158	

J Statistic	0.1220	0.1884	0.1352	0.2015	0.2101	0.1112
AR (1)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
AR (2)	0.2557	0.2248	0.2521	0.3367	0.2631	0.2750
Sargan Test	0.4430		0.6752		0.6543	0.7143
Panel 1: Tobin's Q n=1000						
TOBIN'S Q (-1)	-0.4329		-0.2542		-0.4977	
ICGCS	0.4802[c]				0.5257[a]	
ICGCS*IQM					0.3261	
IQM			0.1894[a]		0.5041[b]	
FIRM AGE	0.5430		1.3760		-0.3852[a]	
FIRM SIZE	0.8437		-0.2028[b]		0.3025[b]	
LIQUIDITY RATIO	0.7083[a]		0.3770		0.2774[a]	
INFLATION	-0.4758		-0.1864		-0.3402	
FDI	0.9018		0.5617		-0.0114	
G_POPULATION	0.4115		0.5376		0.4710	
CULTURE	0.6323		0.3848		0.1867	
J Statistic	0.1925	0.1932	0.1476	0.1746	0.1652	0.1865
AR (1)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
AR (2)	0.2557	0.4254	0.2521	0.3671	0.2631	0.2750
Sargan Test	0.5560		0.6278		0.6924	0.6288
Panel 1: Stock liquidity n=1000						
STOCK LIQUIDITY (-1)	0.0289		0.0686		0.1950	
ICGCS	0.7745[b]	0.3210			0.2494[b]	
ICGCS*IQM			0.6069		0.4854	
IQM	0.4788		0.2586[c]	0.5471	0.5415	
FIRM AGE	0.2252		3.2354		1.5940[c]	
FIRM SIZE	-1.4985		-0.5243		-0.0125	
LIQUIDITY RATIO	0.6724[b]		0.5617[b]		0.1385	
INFLATION	0.5758		-0.2738		0.0979	
FDI	0.1476		0.2506		0.3527	
G_POPULATION	0.9436		0.3212		0.0214	
CULTURE	0.6336		0.5528		0.2454	
J Statistic	0.1812	0.2142	0.1532	0.2031	0.2010	0.1836
AR (1)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
AR (2)	0.2557	0.3251	0.2521	0.2579	0.2631	0.2750
Sargan Test	0.4430		0.6752		0.6543	0.7143

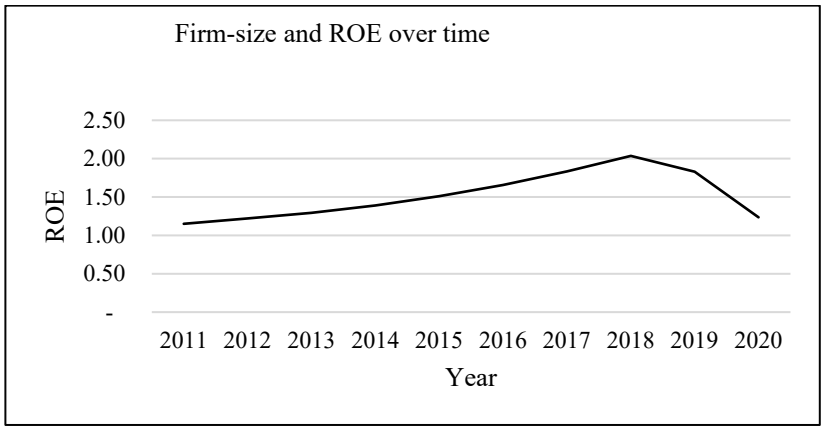
Significance levels - a =1%, b =5%, and c=10%

Results in Table 14 above show that firm size and the liquidity ratio maintained their positive associations with ROE and Tobin's Q. Specifically, firm size has coefficients of 0.6074 for ROE and 0.3025 for Tobin's Q, while the liquidity ratio has coefficients of 0.2409 for ROE and 0.2774 for Tobin's Q. Interestingly, firm age is positively correlated with stock liquidity, with a coefficient of 1.5940, supported by D'Amato and Falivena (2020). However, it exhibits

a negative relationship with Tobin's Q, as indicated by a coefficient of -0.3852, corroborating the findings of Lwango et al., (2017).

Figure 8 below shows that only firm size maintains a significant positive long-run relationship with ROE, with a coefficient of 0.4504. Figure 8 below shows the trend of the coefficients of ROE and firm size in the long run. Its trend was upward until 2020 when a gradual drop was observed. As explained earlier, the positive long-run relationship hinges on the availability of resources that large firms have access to enabling them to remain profitable.

Figure 8: The long-run effect of firm size on ROE 2011-2020



5.4.3 Comparative Analysis of Corporate Governance, Institutional Quality, and Firm Performance between Emerging and Developed Economies

In this analysis, India and South Africa were grouped to represent emerging market economies while the UK and the USA were grouped to represent developed market economies. Table 5.8 displays the results for both emerging and developed markets, with emerging markets presented in Panel 1 and developed markets in Panel 2. Models 1in Panels 1 and 2 shows that ICGCS has a positively significant effect on form performance in both emerging and developed markets. However, the coefficient of ICGCS is greater for emerging markets than in developed markets, suggesting that corporate governance practices have a stronger positive relationship with firm performance in emerging economies. This could imply that effective corporate governance mechanisms play a more critical role in enhancing

firm performance in emerging economies where the institutional frameworks are still of poor quality than in developed ones as stated by Black, De Carvalho, and Gorga, (2012).

Furthermore, in both developed and emerging markets firm size and liquidity ratio control variables also have a significant and positive relationship with firm performance. The coefficients of these variables are greater for emerging markets compared to developed markets.

Table 15: The comparison of the relationship between corporate governance, institutional quality, and firm performance emerging and developed

Model I shows the relationship between firm performance (dependent variable) and the ICGCS. Model II shows the relationship between firm performance and institutional quality. Model III is a full model and includes ICGCS, IQM, the interactive variable between ICGCS and IQM

Variables	Model I		Model II		Model III	
	Short-run	Long-run	Short-run	Long-run	Short-run	Long-run
Panel 1 - Emerging Economies						
Panel 1(a): ROE						
n=2000						
ROE (-1)	0.2241		0.2128		0.7726	
ICGCS	1.2109[b]				1.0959[c]	
ICGCS*IQM					-0.2302[b]	
IQM			-0.5147[b]		-0.7131[b]	
FIRM AGE	-0.6520		-0.1409		0.5066[b]	
FIRM SIZE	0.5254[b]		0.5325[a]		0.1921[c]	
LIQUIDITY RATIO	0.5022[c]		0.5147		1.0387[b]	
INFLATION	0.6238		0.3523		1.3424[b]	
FDI	0.2654		-0.4124		0.2356	
G-POPULATION	0.3104		0.3142		1.1064	
CULTURE	0.6628		0.2509		0.5630	
J Statistic	0.3580	0.1726	0.3240	0.2254	0.2021	0.1402
AR (1)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
AR (2)	0.2658	0.2370	0.2350	0.2870	0.2631	0.2750
Sargan Test	0.4022	0.3351	0.6584	0.4112	0.6543	0.7143
Panel 1(b): Tobin's Q						
n=2000						
TOBIN'S Q (-1)	-0.4314		-0.2327		-0.5161	
ICGCS	2.8824[a]				2.0550[c]	
ICGCS*IQM					-1.4234[c]	
IQM			-0.2019[b]		-0.3588[a]	
FIRM AGE	0.8922		0.3203[b]		1.0545[c]	
FIRM SIZE	1.0920[a]		0.2314		1.4108[b]	
LIQUIDITY RATIO	0.6157		0.8108		1.2107[a]	
INFLATION	-0.2989		-0.2470		-1.0754	
FDI	0.2736		0.2692		0.3553	
G_POPULATION	0.3507		0.3512		0.0479	
CULTURE	0.6050		0.4024		0.1840	

J Statistic	0.2012	0.1924	0.1902	0.2025	0.1457	0.2014
AR (1)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
AR (2)	0.2712	0.3569	0.2365	0.3654	0.3218	0.2540
Sargan Test	0.2811	0.3699	0.2451	0.3787	0.3335	0.2633
Panel 1 (c): Stock liquidity n=2000						
STOCK LIQUIDITY (-1)	-0.0316		-0.7123		0.6517	
ICGCS	0.6591[b]				0.6019[c]	
ICGCS*IQM					-0.3693[c]	
IQM	1.3324		-0.6081[b]		-1.3658[a]	
FIRM AGE	-0.6268		-0.8023[b]		0.5801[c]	
FIRM SIZE	1.1702		1.0123[c]		1.7362[a]	
LIQUIDITY RATIO	0.8712		0.5980		0.8147[b]	
INFLATION	0.6023		-0.2187		-0.2230[c]	
FDI	0.4109		0.3061		2.0140[b]	
G_POPULATION	0.6260		0.0507		0.8459	
CULTURE	0.4850		0.2245		0.5106	
J Statistic	0.4782		0.2050		0.6025	0.1820
AR (1)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
AR (2)	0.3655	0.2422	0.3742	0.3296	0.2601	0.1907
Sargan Test	0.3743	0.2481	0.3833	0.3375	0.2664	0.1953
Panel 2 - Developed Economies						
Panel 2(a): ROE n=2000						
ROE (-1)	0.4011		0.2028		0.1019	
ICGCS	0.8129[b]				0.6081[c]	
ICGCS*IQM					0.3091[a]	
IQM			0.5249[b]		0.4521[b]	
FIRM AGE	-0.5947		-0.5241		-0.3001[b]	
FIRM SIZE	0.4792[a]		0.4293[c]		0.5446	
LIQUIDITY RATIO	0.4580[b]		0.3691		0.1909[a]	
INFLATION	0.5689		-0.4297[c]		0.6101	
FDI	0.2421		-0.3251		-0.2906	
G-POPULATION	0.2831		0.4681		1.7510	
CULTURE	0.6045		0.2541		0.2070	
J Statistic	0.3265		0.3240		0.1767	0.1802
AR (1)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
AR (2)	0.2424	0.2072	0.3510	0.2702	0.4181	0.3681
Sargan Test	0.3201	0.3612	0.4248	0.4101	0.3101	0.4112
Panel 2(b): Tobin's Q n=2000						
TOBIN'S Q (-1)	-0.1524		-0.2702		0.1374	
ICGCS	0.8521[a]				1.2965[c]	
ICGCS*IQM					0. 9012[b]	
IQM			0.2119[b]		0.3295[b]	
FIRM AGE	1.1114		0.3621[b]		1.0994	
FIRM SIZE	1.3603		-0.2883[b]		1.2605[b]	
LIQUIDITY RATIO	0.7670[a]		1.0100		0.4160[a]	
INFLATION	-0.3723		-0.3077		0.9125	
FDI	0.3408		0.3353		0.2146	
G_POPULATION	0.4369		0.4375		0.3109	
CULTURE	0.7536		0.5013		0.2313	
J Statistic	0.2506	0.1504	0.2369	0.2025	0.1210	0.1579

AR (1)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
AR (2)	0.2351	0.3569	0.2351	0.4210	0.2351	0.2321
Sargan Test	0.2811	0.3699	0.2451	0.3787	0.3335	0.2633
Panel 2(c) Stock liquidity n=2000						
STOCK LIQUIDITY (-1)	-0.0316		-0.7123		0.6517	
ICGCS	0.6591[b]				0.6019[c]	
ICGCS*IQM					0.3693[c]	
IQM	1.3324		0.5421[b]		1.3658[a]	
FIRM AGE	-0.6268		1.2002[b]		0.5801[c]	
FIRM SIZE	1.1702				1.7362[a]	
LIQUIDITY RATIO	0.8712[a]		0.2268		0.8147[b]	
INFLATION	0.6023		-0.2702		-0.2230	
FDI	0.4109		0.3142		2.0140	
G_POPULATION	0.6260		0.1524		0.8459	
CULTURE	0.4850		0.3256		0.5106	
J Statistic	0.4782		0.2236		0.6025	0.1820
AR (1)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
AR (2)	0.3655	0.2422	0.3232	0.3296	0.2601	0.1907
Sargan Test	0.3321	0.2715	0.2695	0.3029	0.2473	0.3125

Significance levels - a =1%, b =5%, and c=10%

Model II presents the relationship between institutional quality and firm performance in emerging and developed markets. As expected, the IQM in emerging markets has a significantly negative relationship with firm performance while this relationship is significantly positive for developed markets, suggesting that institutional quality may have a detrimental effect on firm performance in emerging economies. This could indicate that weaker institutional frameworks or governance structures in emerging markets may hinder firm performance (rather than support it while in developed markets, well-established and robust institutional frameworks often provide a stable and predictable business environment, which can positively influence firm performance (Black, et al., 2012).

Model II is a full model that includes corporate governance, institutional quality, and the interactive variable. The ICGCS maintains a positive and significant relationship with firm performance in both emerging and developed economies. However, the weak institutional quality reduced the coefficient of the ICGCS in emerging economies, highlighting the negative effect of weak institutional quality in emerging markets. In both emerging and developed markets, there are factors other than ICGCS and institutional quality that affect firm performance, with firm size, firm age, and liquidity ratio being important in both environments. Interestingly, in Model II, neither the ICGCS nor any factor has a long-term

relationship with firm performance, which suggests that corporate governance practices, when implemented effectively, can lead to immediate improvements in operational efficiency, and these short-term gains can translate into tangible improvements in firm performance metrics. However, in the long term, the initial effect of corporate governance practices diminish or become less pronounced.

5.4.4 Corporate Governance, Institutional Quality, and Economic Growth

This section presents the results of the relationship between internal corporate governance compliance scores (ICGCS) and economic growth as measured by growth in the gross domestic product (GDP) in South Africa.

Results in Table 16 below show that the internal corporate governance compliance score (ICGCS) has a positive relationship with GDP growth in Model 1 (South Africa = 0.5302; India =0.4329, the UK =0.5312, and the USA = 0.1552). The positive and significant results imply that adherence to country corporate governance codes can significantly contribute to the economic growth of a nation. The positive influence of corporate governance on economic indicators such as GDP growth could be a result of improved investor confidence, reduced agency costs, and enhanced overall market stability (Fung, 2014) due to transparency and accountability from effective corporate governance practices in these countries. No long-term relationship was noted in the relationship between corporate governance and economic growth in all the countries.

The second finding that is noted is the negative influence of institutional quality (IQM) on economic growth in South Africa and India while the opposite is true for the UK, and the USA in both models II and III. This finding confirms the findings of similar studies (e.g. Radzeviča and Bulderberga, 2018 and Chang, 2023) that found weak institutions to affect economic growth negatively, in contrast to those countries with strong institutional quality. The result may be indicative of the weak institutional environment in South Africa and India, which may struggle to provide a stable and predictable economic environment. This leads to suboptimal resource allocation, limited access to capital, and overall slower economic growth rates. On the contrary, high-quality institutions in developed markets may have created an

enabling business environment that encourages innovation, investment, and productivity, leading to positive GDP growth outcomes (Acemoglu & Robinson, 2010).

Thirdly, it can be noted that when the institutional quality measure (IQM) interacts with the corporate governance compliance score (ICGCS), the positive effect of corporate governance compliance on economic growth is reversed to negative in South Africa (-0.1992) and India (-0.2602) in model III. This may indicate that weak institutional quality undermines the positive effect of corporate governance compliance by creating uncertainties, reducing investor confidence, and hindering business operations, ultimately impeding economic growth (Radzeviča & Bulderberga, 2018). On the contrary, no significant relationship is noted in the case of the UK and the USA, which may mean that the governance mechanisms and structures in developed economies are well-established and capable of operating effectively without significant reliance on external institutional factors (IMF, 2003).

Results regarding other explanatory variables show that inflation and FDI positively affect economic growth in South Africa and India in model III. On the contrary, inflation harms economic growth in the USA). Inflation may have a dual effect on economic growth because moderate inflation has the potential to propel economic growth by encouraging spending and investment (Yilmazkuday, 2022), while the negative effect arises from the erosion of the purchase of individuals and businesses, ultimately impeding long-term economic growth and development. Similarly, Mwakanemela (2013) and Olugbenga, et al., (2020) report a negative effect of inflation on economic growth in Tanzania and Nigeria which are less developed countries. This finding is similar to the findings of Yilmazkuday (2022), who found inflation to negatively affect economic growth in countries with stronger institutions, and positively affect growth in countries with weaker institutions.

Lastly, population growth was found to have a positive effect on economic growth in South Africa (0.2803) and India (0.1527) in model III. This finding is similar to that of Stungwa and Daw (2021) who found population growth to be positively correlated with economic growth. The relationship between population growth and economic growth is premised on the argument that population dynamics can influence economic performance through channels such as labor supply, consumption patterns, demand for goods and services, and overall market dynamics (Haseeb et al., 2019).

It can be noted that no long-term relationship was established between the economic growth and the main independent variables of the ICGCS, IQM, and the interaction variable of (IQM* ICGCS). Additionally, national culture was seen to positively affect economic growth but not at a significant level.

Table 16: The relationship between the governance scores and economic growth

Model I shows the relationship between firm performance (dependent variable) and the ICGCS. Model II shows the relationship between firm performance and institutional quality. Model III is a full model and includes ICGCS, IQM, and the interactive variable between ICGCS and IQM.

Variables	Model I		Model II		Model III	
	Short run	Long -run	Short run	Long - run	Short run	Long - run
Panel 1: South Africa n = 1000						
GROWTH IN GDP (-1)	0.2812		-0.2103		-0.1713	
ICGCS	0.5302[a]				0.1556[a]	
(ICGCS*IQM)					-0.1992[c]	
IQM			-0.1907[a]		-0.0687[b]	
INFLATION	0.2105		0.4213		0.3803[a]	
FDI	0.4213		0.2272		0.1444[b]	
G_POPULATION	0.2715		0.1907		0.2803[b]	
CULTURE	0.2404		0.2834		0.4027	
J-statistic	0.1822	0.5179	0.2041	0.1603	0.6943	0.2130
AR (1)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
AR (2)	0.2614	0.2269	0.2160	0.2710	0.4254	0.2902
Sargan Test	0. 4022	0.3160	0.6124	0.4101	0.5110	0.2030
Panel 2: India n = 1000						
GROWTH IN GDP (-1)	-0.0912		-0.1223		-0.0802	
ICGCS	0.4329[a]				0.3217[b]	
(ICGCS*IQM)					-0.2602[a]	
IQM			-0.4289[c]		-0.1723[c]	
INFLATION	0.4024		0.1428		0.1332[a]	
FDI	0.1043		0.1201		0.0832[b]	
G_POPULATION	0.3124		0.0714		0.1527[c]	
CULTURE	0.0352		0.0216		0.0429	
J Statistic	0.1721		0.2018		0.1608	0.2413
AR (1)	0.0000	0.0000	0.0000	0.0000	0.0000	
AR (2)	0.2804	0.3180	0.2509	0.3129	0.2860	0.2533
Sargan Test	0. 4842	0.3412	0.6584	0.2587	0.5255	0.4110
Panel 3: UK n = 1000						
GROWTH IN GDP (-1)	0.0943		0.3814		0.1528	
ICGCS	0.5312[c]	0.0244			0.2201[a]	0.1056
CCGCS (ICGCS*IQM)					0.1349	
IQM			0.2155[a]	0.0147	0.2008[b]	0.2587
INFLATION	0.4281		0.0903		0.0271	
FDI	0.1803		0.0541		0.0312[a]	0.1476
G_POPULATION	0.3623[b]	0.0024	0.1157		-0.0809	

CULTURE	0.0294		0.1477		0.0251	
J Statistic	0.1876	0.16024	0.2014	0.1982	0.2110	0.2103
AR (1)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
AR (2)	0.4842	0.3589	0.6584	0.4117	0.5255	0.6075
Sargan Test	0.1472	0.2804	0.2435	0.2509	0.2103	0.2860
		Panel 3: USA				
		n = 1000				
GROWTH IN GDP (-1)	-0.2283		-0.2629		-0.6603	
ICGCS	0.1552c	0.1942			0.8123b	0.0365
(ICGCS*IQM)					0.1021	
IQM			0.3115a	0.2100	0.2421b	0.2606
INFLATION	-0.2826		-0.1321		-0.1603a	-0.0261
FDI	0.4189		0.2917		-0.6272	
G_POPULATION	0.6323		0.4431		-0.0138	
CULTURE	0.2394		0.0472		0.2697	
J Statistic	0.2152		0.1844		0.2254	0.1753
AR (1)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
AR(2)	0.2557	0.2548	0.2521	0.4189	0.2631	0.2750
Sargan Test	0.1411	0.2504	0.3535	0.2009	0.1803	0.2360

Significance levels - a =1%, b =5%, and c=10%

5.4.5 Comparative Analysis of Corporate Governance and Economic Growth in Emerging and Developed Economies

In this analysis, the sample countries were categorized into emerging (SA and India) and developed (USA and UK) markets to establish the relationship between governance and economic growth in these categories. For brevity purposes, results are only shown for Model III and IV for comparison.

Results in Table 17 show below that the internal corporate governance compliance score (ICGCS) had a positive effect on growth in GDP (1.0146) in emerging and developed (0.5081) economies in model III. As was the case for firm performance, the coefficient of ICGCS is greater for emerging markets than for developed markets, suggesting that corporate governance practices have a stronger positive relationship with economic growth in emerging economies. This could imply that effective corporate governance mechanisms act as substitutes for the lack of strong institution frameworks that are prevalent in emerging economies as stated by Black, De Carvalho, and Gorga, (2012). However, in developed economies where institutional quality is high, corporate governance plays a lesser role in promoting economic growth, thus the low coefficient (Klapper & Love, 2004).

Table 17: The Relationship between Corporate Governance and Economic Growth in Emerging and Developed Economies.

Variables	Model I		Model II		Model III	
	Short run	Long -run	Short run	Long - run	Short run	Long - run
Panel 1: Emerging Markets n = 2000						
GROWTH IN GDP (-1)	0.2812		0.2072		0.5527	
ICGCS	0.5302[a]				1.0146[b]	
(ICGCS*IQM)					-0.6206[c]	
IQM			-0.4241[a]		-0.2219[a]	
INFLATION	0.2105		0.0103[c]		0.0883[c]	
FDI	0.4213		0.4415[a]		0.3154[a]	
G_POPULATION	0.2715		0.0325		0.0673	
CULTURE	0.2404		0.0420		0.0226	
J-statistic	0.1822	0.1279	0.2041	0.1603	0.1643	0.2130
AR (1)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
AR (2)	0.2614	0.2269	0.2160	0.2710	0.4254	0.2902
Sargan Test	0. 4022	0.3160	0.6124	0.4101	0.5110	0.2030
Panel 2: Developed Economies n = 2000						
GROWTH IN GDP (-1)	-0.0321		-0.0355		0.1013	
ICGCS	0. 3229[a]				0.5081[b]	

(ICGCS*IQM)					0.4531[c]	
IQM			0.4289[c]		0.3271[a]	
INFLATION	0.0031		0.0728		-0.0154[c]	
FDI	0.1147		0.2010		0.1312	
G_POPULATION	0.2136		0.2214		0.7105	
CULTURE	0.1680		0.1066		0.1902	
J Statistic	0.2171	0.1604	0.1502	0.1890	0.2102	0.1818
AR (1)	0.0000	0.0000	0.0000	0.0000	0.0000	
AR (2)	0.2204	0.2810	0.2305	0.3002	0.2058	0.1902
Sargan Test (P Value)	0. 4032	0.3412	0.6584	0.2587	0.5255	0.4110

Significance levels - a =1%, b =5%, and c=10%

5.5 Robustness Check

To ensure the robustness of the System GMM results, additional analysis using the Random Effects (RE) model was done. The decision to employ the RE model was based on its ability to account for time-invariant unobserved heterogeneity across entities, which is a common concern in panel data analysis. By utilizing the RE model, one can effectively control for such unobserved factors while examining the consistency of the results obtained through the System GMM approach. For purposes of brevity, Table 18 shows results summarized from the RE analysis relating to the main independent variables only.

Table 18: Random Effects Results

Dependent Variables	ROE	Tobin's Q	Stock liquidity	Economic Growth
Panel 1: South Africa				
ICGCS	0.7933[a]	0.1875[b]	1.5925[c]	0.3203[a]
IQM	- 0.0805[b]	-0.0621[a]	0.2009[b]	-0.4305[a]
IQM* ICGCS	-1.8057[b]	-0.1562[a]	-0.2597[a]	-0.6978[a]
Panel 2: India				
ICGCS	0.2632[b]	0.4039[c]	0.2140[a]	0.0642[a]
IQM	-0.1320[a]	-0.2241[a]	-0.3154[a]	-0.1664[a]
IQM*ICGCS	-0.8438[c]	-0.2872[b]	-0.0192[a]	-0.0343[a]
Panel 3: UK				
ICGCS	0.1320[a]	0.2241[a]	0.3154[a]	0.4119[c]
IQM	0.8438[c]	0.2872[c]	0.0192[b]	0.5213[a]
IQM*ICGCS	0.4772[a]	0.4943[a]	0.2194[a]	0.3799[b]
Panel 4: USA				
ICGCS	0.6299[c]	0.3833[a]	0.1860[b]	0.7893[a]
IQM	0.0926[a]	0.0801[c]	0.1331[b]	1.2402[a]
IQM*ICGCS	0.1097[a]	0.0692[a]	0.1061[c]	0.4950[b]
Test summary	$\chi 2$ statistic	$\chi 2$ df.	Probability	
Cross-section random	11.0178	8.0000	0.0002[a]	

Effects specification	
R	0.83
Adjusted R	0.77
F-statistic	21.42
Prob. (F-statistic)	0.0200**
Durbin–Watson stat	1.7200

Under the RE regression model, all the main independent variables were found to be significant with the firm performance and economic growth measures for all the sampled countries. The R^2 of the model is 83%, while the adjusted R is 77.00 percent. The R explains 83.00 percent of variations. Adjusted R^2 of this panel explains 77.00 percent variations in the independent variables.

5.6 Major Findings

The first major finding revealed by this study is that corporate governance compliance levels in emerging economies have significantly improved throughout the study. In comparison to the finding of Ntim (2009) that showed low levels of corporate governance compliance among South African firms, this study established that South African firms' compliance level averages 96%, which is higher than the UK average (89%), India (76%), and the USA (95%). South Africa's high scores in compliance can be attributed to the introduction of the King III and IV reports that required companies to "apply or explain" to "apply and explain" respectively. This has led to greater levels of compliance. India has continuously continued to focus on enhancing the 'ease of compliance' and 'ease of doing businesses within the corporate governance framework.

The second major finding is that corporate governance has a significant positive correlation with firm performance (ROE, Tobin's Q, and Stock liquidity) in all sampled countries. This finding is supported by several other studies (Arora & Bodhanwala, 2018; Asgari, 2015; Ben, 2014, 2014; Martynova & Renneboog, 2010). The relationship is positive because by establishing transparency, accountability, and ethical conduct, robust corporate governance practices enhance a firm's reputation, reduce information asymmetry, and build investor confidence, thus facilitating better access to finance (Melnic & Juravle, 2020; Noos, 2010). This leads to profitability, increased firm value, and better stock market performance.

The third major finding is that corporate governance has a long-term relationship with ROE and Tobin's Q in South Africa, and India. In relation to that, the long-term effect of the ICGCS was lesser than the long run effect significant positive relationship with firm. This means that in the long term, the initial effect of corporate governance practices on firm performance becomes less pronounced.

The fourth finding is that weak institutions do not enhance both firm performance and economic growth. Worse still, the study found that weak institutions reverse the benefits of a robust corporate governance framework, especially in emerging economies where institutional quality was found to be low. This implies that failure by institutions to enforce regulations effectively or when there are conflicting pressures within the institutional

environment, the intended outcomes of corporate governance practices may not be fully realized.

Lastly, the study revealed that over the study period, corporate governance was only found to have a long-term relationship with Tobin's Q (TQ) in India. This finding suggests that corporate governance practices may exert a significant influence on TQ in the long term within the Indian context. While significant relationships were not observed in other sampled countries, including South Africa, the UK, and the USA, these results offer valuable insights into the nuanced dynamics of governance mechanisms across diverse economic landscapes. The identification of a long-term relationship with TQ in India serves as a focal point for further investigation, prompting exploration into the specific contextual factors or governance practices driving this relationship. Moreover, the absence of significant relationships in other countries underscores the importance of understanding the variability in governance effectiveness across regions. Negative findings or lack or significant findings contribute to refining research methodologies and guiding future inquiries. Overall, this study advances our understanding of the complex interplay between corporate governance, firm performance, and economic growth, emphasizing the need for context-specific governance strategies to foster sustainable development and enhance market efficiency.

Chapter Summary

This chapter presented both the univariate and bivariate results relating to the effect of corporate governance on firm performance and economic growth in developed and emerging economies. The results show that poor institutional quality governance in emerging economies erodes the benefits of good internal governance on firm performance and economic growth. The next chapter discusses the results in detail and concludes the thesis.

CHAPTER SIX

DISCUSSION, INTERPRETATION, AND CONCLUSION

6.1 Introduction

This chapter provides a comprehensive analysis of the results presented in Chapter 5. The significance of these findings lies in their potential to shed light on crucial relationships essential for understanding the dynamics of corporate governance, institutional frameworks, and economic outcomes in diverse market settings. The chapter is organized as follows: Section 6.2 presents a detailed discussion of the results presented in Chapter 5. Section 6.3 presents the research contribution, while Section 6.4 discusses the implications of the study in terms of theory, and practice, suggestions for future research, and recommendations for policymakers and practitioners. Lastly, Sections 6.5 and 6.6 detail the limitations of the study and the conclusion respectively.

6.2 Discussion and Interpretation of Results

6.2.1 Compliance with Codes of Corporate Governance in Sample Emerging and Developed Economies

The study was framed around several key research objectives, questions, and hypotheses that aimed at understanding the relationships among corporate governance, institutional quality, firm performance, and economic performance across emerging and developed markets. The first research objective and question aimed at establishing whether companies operating in emerging (India and South Africa) and developed (USA and the UK) economies demonstrate a significant level of compliance with their respective country's corporate governance standards. This research question was answered by testing the following hypothesis ‘companies operating in both emerging (India and South Africa) and developed (the UK and the USA) markets demonstrate a significant level of compliance with their respective country's corporate governance standards.’

Findings from testing the above hypothesis revealed that firms in both emerging and developed economies demonstrated a significant level of adherence to their respective country corporate governance standards despite using different measurement scores. Empirical findings led to the failure to reject the null hypothesis. In other words, the study did not find sufficient evidence to conclude that sampled firms in the emerging and developed economies did not demonstrate a significant level of compliance with their respective country's corporate governance standards. The above findings corroborate the findings of several corporate governance studies, (Ntim, 2009; Ntim et al., 2011; Wiese, 2017) that found corporate governance compliance by firms listed on the JSE to have improved. Arora and Bodhanwala (2018), and Sarkar et al., (2012) found that corporate governance compliance improved over time in India.

Different reasons may help to explain the compliance levels identified by this study. First, corporate governance standards have become crucial for upholding transparent and ethical business practices, with mounting evidence from both academia and industry supporting the prioritization of adherence to these standards by companies, irrespective of whether they operate in emerging or developed markets. From a global perspective, regulatory trends underscore the increasing emphasis placed by regulatory bodies and governing authorities worldwide on the significance of corporate governance (ICGN, 2017; OECD, 2004). This has led to the imposition of standards and regulations aimed at ensuring responsible and ethical company operations, a trend observable in both emerging and developed markets. For instance, the implementation of the King III and IV reports in South Africa, and India's implementation of the Companies Act, 2013 accounts for the positive changes in the two countries. Likewise, the UK's Corporate Governance Code of 2016, 2018 (FRC, 2018), and the USA's Sarbanes-Oxley Act (Sarbanes and Oxley, 2002) are all geared towards ensuring compliance with governance standards. Such efforts account for improved adherence to corporate governance codes.

Secondly, companies operating in both emerging and developed markets are increasingly cognizant of the effect of good governance on investor confidence. Studies (e.g., Aguilera and Cuervo-Cazurra, 2004; Farber, 2005; Holm et al., 2014) indicate that investors in both developed and emerging markets favor firms with robust governance practices due to the

association with reduced risk and improved performance. The current landscape characterized by globalization and cross-border operations has prompted many companies to operate in multiple countries, including both emerging and developed markets, necessitating adherence to a uniform set of governance practices to manage diverse operations, regardless of location (Aguilera & Cuervo-Cazurra, 2004; Aguilera & Jackson, 2003; Gilson, 2001). Furthermore, firms operating in both emerging and developed markets recognize the importance of maintaining a positive reputation and its impact on `firm performance. Adhering to corporate governance standards is viewed as a means to demonstrate a commitment to responsible business conduct, thereby enhancing reputation and public perception (Akbar et al., 2016; Dzingai and Fakoya, 2017; Koehn and Ueng, 2005) regardless of the market in which they operate.

It is imperative to note that while compliance has played a significant role in driving corporate governance adherence, other factors may have driven firms to adhere. These include reputation management, where companies strive to maintain a positive image by following best practices (Ghuslan et al., 2021; Pharoah, 2003; Rensburg & De Beer, 2011). Additionally, investor confidence is bolstered when firms demonstrate strong governance, leading to better access to capital markets (Bona-Sánchez et al., 2017; Fung, 2014). Furthermore, listed firms in the USA, the UK, India, and South Africa are legally required to comply with specific elements of corporate governance outlined in the Sarbanes-Oxley Act (SOX) of 2002, the UK's Companies Act 2006, India's Companies Act, 2013, and South Africa's Companies Act 71 of 2008. Such legal requirements may have driven high levels of adherence, even though many corporate governance practices are still adopted voluntarily by firms in the USA, the UK, India, and South Africa. Additionally, the existence of consequences for non-compliance that can have serious consequences such as delisting, fines, or reputational damage may explain the high levels of adherence.

Conversely, despite noting high levels of compliance in both emerging and developed countries, achieving a 100% level of compliance was elusive across the countries because of several reasons. For instance, achieving 100% compliance with the King IV Report in South Africa is hampered by resource limitations, particularly in smaller entities (Albu & Girbina, 2015). Secondly, nations in emerging markets exhibit low enforcement mechanisms and less

discerning information users. This fosters an environment where local companies often evade consequences for non-compliance without facing sanctions, relying instead on generic explanations (Albu & Girbina, 2015). Additionally, laxity in compliance checks and monitoring mechanisms could lead to adherence gaps, hindering the pursuit of complete compliance.

Similarly, in India, navigating the complexities of the SEBI Listing Obligations and Disclosure Requirements presents challenges, exacerbated by ongoing legal and regulatory changes. Continuous learning and adaptation are necessary in this dynamic environment, which may pose hurdles to achieving 100% compliance. Resource constraints for smaller firms and potential learning gaps further exacerbate adherence to evolving requirements, resulting in compliance levels below 100%.

Conversely, the UK and the USA encounter distinct governance challenges. In the UK, the "comply or explain" principle under the UK Corporate Governance Code introduces complexities in compliance evaluation, potentially resulting in variations in adherence (FRC, 2016). Legal and regulatory changes affect full compliance, emphasizing the importance of transparent explanations for deviations. In the USA, the Sarbanes-Oxley Act (SOX) focuses primarily on financial reporting and disclosure, leaving many governance mechanisms unregulated. Therefore, balancing compliance with regulated mandates against voluntary best practices presents challenges, particularly for smaller firms with limited resources. Lastly, laxity or lack thereof in checking compliance in all the sampled countries may be a contributing factor. This is because regulatory bodies or industry watchdogs may face challenges in effectively monitoring *all* listed firms due to resource limitations or inadequate oversight mechanisms.

Further, learning gaps especially in the earlier years of implementing new corporate governance codes, rules, and regulations could also contribute to incomplete compliance, especially in emerging economies where corporate governance frameworks may be relatively new or evolving. In this regard, firms may require time to fully understand and implement the requirements of corporate governance codes, especially if they lack internal expertise or resources.

The challenges mentioned, such as resource constraints, evolving legal and regulatory landscapes, and cultural adaptation issues, have not prevented firms from demonstrating a substantial level of adherence to local governance standards. This highlights a robust commitment to corporate governance practices despite the different hurdles faced by firms in distinct areas. Furthermore, the ability to navigate the complexities of the "comply or explain" principle, unregulated governance mechanisms under the Sarbanes-Oxley Act in the USA, and ongoing learning and adaptation requirements in India highlights the agility and commitment of firms to uphold governance standards. This finding underscores the resilience of firms in adhering to governance standards, indicating a substantial level of commitment across diverse regulatory landscapes and economic contexts.

Existing theories can also be used to explain the witnessed levels of adherence in the sample countries. Using the institutional theory lens, adherence to corporate governance country codes by firms stems from the influence of the broader institutional environment in which they operate (North, 1990). The institutional environment encompasses regulatory frameworks, cultural norms, and industry practices (Scott, 2014). In the context of corporate governance, this theory highlights how companies, regardless of their geographic location or market maturity, tend to conform to the prevailing institutional norms and structures within their respective environments (DiMaggio & Powell, 1983).

From the institutional theory perspective, coercive, mimetic, and normative pressures have driven corporate governance compliance levels across emerging and developed economies. Coercive pressures have come from institutions such as the World Bank's Corporate Governance group within the Financial Market Integrity (FMI) department. The focus of this group is improving corporate governance in emerging market countries (World Bank, 2016). Institutions such as the OECD have exerted coercive pressure by advocating for the adoption of corporate governance principles into country corporate governance codes (OECD, 2004, 2015).

Secondly, the underlying impetus for adherence can be rooted in the need to conform to the institutional expectations and norms prevalent in their operating environments. This adherence is driven by the desire to gain legitimacy, mitigate risks, and foster stakeholder

trust, all of which are crucial factors for organizational survival and success (Scott, 1995; DiMaggio & Powell, 1983). Furthermore, institutional theory underscores the role of isomorphism, wherein organizations within a particular institutional environment tend to become more similar over time due to the pressures for conformity and legitimacy (DiMaggio & Powell, 1983). This process of isomorphism can help to explain the observed compliance across both emerging and developed economies, as firms conform to the institutional expectations, to align with the prevailing governance standards, thus displaying a significant level of adherence to country corporate governance codes.

Another aspect of the institutional theory that can help explain the results above is the role of mimetic behavior in shaping the level of compliance in emerging economies, especially within the domain of corporate governance. In these developing market settings, where institutional frameworks and governance standards are often still evolving, companies have frequently emulated the practices of established firms in developed markets. This behavior is motivated by the need for legitimacy and the aspiration to align with reputed and successful practices, especially in the absence of well-defined local norms (DiMaggio & Powell, 1983).

Moreover, the allure of foreign investment has also driven mimetic behavior, as companies in emerging economies recognize that adopting governance practices akin to those of developed markets can enhance their appeal to external investors. By emulating the governance standards prevalent in more established economies, firms seek to communicate stability, transparency, and a commitment to sound corporate practices, crucial factors that resonate with global investment communities (Peng, Wang, & Jiang, 2008).

It can be noted that the adoption of corporate governance in developed economies has yielded positive results such as access to capital, improved firm values, and safeguarding shareholder interests (Jensen & Ruback, 1983; Margaritis & Psillaki, 2010). These benefits may have forced companies in emerging economies to emulate corporate governance practices to enhance their legitimacy and competitiveness. This mimetic behavior leads to the adoption of corporate governance practices across different economies. Normative pressure, on the other hand, has arisen from the growing awareness of the importance of aligning with global standards of corporate governance (Bhasin & Garg, 2020). This has been driven by the

normative influence of international organizations such as the World Bank, IMF, and OECD, regulatory bodies such as the Stock Exchanges, and global corporations that are in most cases cross-listed. Therefore, the institutional theory argues that firms adopt certain practices and forms not only because of their technical efficiency but also because of their legitimacy and conformity with the prevailing norms and values of society (David et al., 2019). Studies (e.g., Kang and Moon 2012; Uyar et al., 2019; and Zattoni et al., 2020) suggested that the institutional theory explains the variation and convergence of corporate governance practices across different countries.

From the agency theory perspective, corporate governance mechanisms focus on aligning the interests of shareholders (principals) and managers (agents) (Fama, 1980; Fama & Jensen, 1983; Turnbull, 1997). Based on the agency theory, the convergence of corporate governance compliance levels across emerging and developed economies can be explained by the universal need to mitigate conflicts of interest (Polutnik, 2015), address information imbalances (Connelly et al., 2011), and protect shareholder rights (Armour, 2020). The theory highlights that corporate governance mechanisms, such as board structures (Vafeas, 1999) and disclosure requirements (Haat et al., 2008), are essential for aligning interests, ensuring transparency, and safeguarding shareholders from potential opportunistic behaviors. As a result, the universal concerns outlined by the agency theory can be used to explain the adoption of corporate governance practices across different economies, leading to comparable compliance levels.

6.2.2 The Relationship between the ICGCS, Institutional Quality, and Firm Performance

The second research objective and question aimed to examine the nature of the relationship between the internal corporate governance compliance score and firm performance in emerging (India and South Africa) and developed (USA and the UK) economies. The research question was answered by testing the hypothesis ‘there is a robust and statistically significant positive correlation between corporate governance score and firm performance in emerging (India and South Africa) and developed (USA and the UK) economies. The empirical analysis revealed compelling results regarding the relationship between the Internal Corporate Governance Compliance Score (ICGCS) and firm performance measures across

diverse economic contexts. Specifically, the study found a significantly positive association between ICGCS and all the firm performance indicators (Return on Equity, Tobin's Q, and stock liquidity) in the short run. These outcomes were observed in both developed (the UK and the USA) and in emerging countries (South Africa and India). This underscores the universal relevance of strong internal corporate governance practices in driving short-term improvements in firm performance across different market landscapes. Results are in line with those of Adams and Mehran (2003) who discovered that effective corporate governance practices positively affect a firm's operational efficiency, thereby leading to long-term improvements in ROE. Likewise, according to Black, Jang, and Kim (2006), firms with robust corporate governance structures experience elevated levels of investor confidence and stability, which leads to sustained enhancements in firm performance. Furthermore, Clarke, et al., (2007) indicated that strong corporate governance correlates with superior risk management, leading to more stable and consistent ROE performance over extended periods. Based on the findings of this study, Hypothesis 2a, which anticipated a robust and statistically significant positive correlation between corporate governance score and firm performance in emerging (India and South Africa) and developed (USA and the UK) economies is supported.

Intriguingly, while the positive relationship between the ICGCS and firm performance measures was consistent across the sampled countries, the study revealed a unique long-term association between ICGCS ROE, and Tobin's Q in South Africa, and between Tobin's Q in India. The results showed that the long-run effect of corporate governance on both ROE and Tobin's Q is lesser than the long run effect. This could mean may be due to the gradual nature of adoption of integrating corporate governance practices across the organizations. Additionally, while the short-term effects may be more immediately visible, the long term effect of effective corporate governance on firm performance requires patience and a comprehensive long-term perspective (Škare & Golja, 2014). This indicates the nuanced and potentially distinctive effect of internal corporate governance on firm performance dynamics within emerging economies context. The long-term relationship between corporate governance compliance and the two firm performance measures (ROE and Tobin's Q) in South Africa and India aligns with Raithatha and Haldar, (2021)'s conclusion that corporate

governance has long-term consequences for Indian firms aspiring to improve their performance.

Furthermore, the observed positive relationship between ICGCS and firm performance measures could be attributed to the enhanced transparency and accountability promoted by strong internal governance practices. By adhering to comprehensive governance structures, firms may effectively mitigate agency conflicts, reduce information asymmetry, and cultivate a culture of integrity and ethical conduct (Akmal et al., 2022; Roy, 2016; World Bank, 2016). This, in turn, can bolster investor confidence, attract capital, and lead to efficient allocation of resources within the firm, ultimately contributing to improved financial performance (Aguilera & Jackson, 2003; Okpara, 2011; Samaha et al., 2012).

Findings form this study align with several previous studies (e.g., Ntim, 2009, Brown and Caylor (2006), Carvalhal-da-Silva and Leal (2005), and Gompers, Ishii and Metrick (2003), that found a positive correlation between the corporate governance index and firm performance. For instance, Ntim, 2009 found the corporate governance compliance-index to have a statistically significant and favorable correlation with firm financial performance. The findings implied that well-governed South African listed companies were linked to superior financial returns compared to their inadequately governed counterparts, as evidenced by higher ROE and Q-ratio measurements. Additionally, Bhagat and Bolton (2008) found a positive relationship between corporate governance (measured through the G-Index and E-Index), and both current and future operating performance, hence supporting the notion that corporate governance compliance is beneficial to the firm.

However, several studies, (e.g., Chhaochharia and Grinstein (2007), Bebchuk and Weisbach (2010), and Kiruri and Olkalou (2013), have reported a negative association between corporate governance and firm performance. Conversely, studies by Elsayed (2007), Daines et al. (2010), Aboagye and Otieku (2010), and Pham et al., (2011) failed to establish any discernible relationship between corporate governance and firm performance. Furthermore, studies including those by Hambrick et al. (2015), Misangyi and Acharya (2014), Munisi and Randøy (2013), Al-Manaseer (2012), Ammann et al., (2011a), and Bhagat and Bolton (2008) have yielded mixed results. These varying outcomes underscore the complexity of the

relationship between corporate governance and firm performance across different contexts and methodologies.

One key reason for the disparity in findings is the different measurement models used to test the relationship. For instance, this study used the compliance model, while other studies (e.g., Haniffa and Hoodia, 2006, Davidson et al., 1996, Booze (2005), and Iqbal (2006) used the equilibrium model. Some studies even employ both models simultaneously, as observed in research conducted by Ntim (2009). These methodological differences can lead to divergent findings regarding the impact of corporate governance on firm performance. Additionally, issues identified by Zattoni et al. (2017) further contribute to the complexity of understanding this relationship. These issues include variations in specific national and institutional qualities across different countries, such as differences in financial systems, education and training, control systems, and the extent of state intervention in the economy. Such contextual factors can influence the effectiveness of corporate governance mechanisms and their impact on firm performance, leading to heterogeneous findings in empirical studies.

From an agency theory perspective, the results noted in this study can be explained as follows. Corporate governance enhances firm performance through mechanisms that align the interests of managers (agents) with those of shareholders (principals) (Fama, 1980). Agency theory posits that conflicts of interest arise between these parties, as managers may prioritize their interests over those of shareholders. However, effective corporate governance mechanisms, such as board oversight, executive compensation structures, and shareholder monitoring, serve to mitigate these conflicts and promote managerial actions that maximize shareholder value (Jensen & Meckling, 1976). By aligning incentives, corporate governance encourages managers to make decisions that enhance firm performance, such as pursuing strategies that increase profitability, efficiency, and long-term sustainability (Hermalin & Weisbach, 2012). Moreover, corporate governance mechanisms enhance transparency, accountability, and disclosure practices, reducing agency costs associated with information asymmetry and moral hazard (Shleifer & Vishny, 1997). This improved information environment fosters investor confidence, lowers the cost of capital, and enhances access to external financing, facilitating firm growth and investment opportunities (La Porta et al., 2000). Overall, from the agency theory perspective, corporate governance improves firm performance by aligning managerial

incentives with shareholder interests, reducing agency costs, and enhancing transparency and access to capital.

From the Information asymmetry theory perspective, corporate governance influences firm performance and economic growth by addressing disparities in information between managers and shareholders (Stiglitz & Weiss, 1981). Managers typically possess more information about firm operations, creating potential problems like adverse selection and moral hazard (Majić et al., 2015). Effective corporate governance mechanisms, such as transparent reporting and independent board oversight, mitigate these issues by providing shareholders with better access to relevant information (Bushman & Smith, 2001). These foster informed decision-making, reduces the misallocation of resources, and lowers agency costs. Enhanced transparency and accountability also boost investor confidence, reducing the cost of capital and increasing access to external financing (La Porta et al., 2000). Consequently, firms can invest in productivity-enhancing projects, innovation, and expansion, contributing to economic growth. Therefore, information asymmetry theory suggests that effective corporate governance practices alleviate information problems, bolster investor confidence, and promote firm performance and economic development through efficient resource allocation and investment decisions.

On the relationship between the control variables and firm performance, firm size had a positive effect on all the measures of firm performance in South Africa, India, the UK, and the USA. These results corroborate with the findings of Ntims, (2009), and Abdoush, (2017). Firm size plays a crucial role in influencing a firm's performance through several key mechanisms. Larger firms, due to their scale and market presence, often possess certain inherent advantages that contribute to higher ROE. Firstly, larger firms benefit from economies of scale, allowing them to spread their fixed costs over a larger output. This enhanced operational efficiency arises from the ability to invest in productivity-improving technologies and processes, which positively affects their ROE (Berger & Bonaccorsi di Patti, 2006). Furthermore, the strong market presence and financial stability of larger firms afford them easier access to affordable capital, enabling profitable investments that smaller firms may not have the capacity to pursue, thus contributing to better firm performance (Demirgüç-Kunt & Maksimovic, 1999). In addition, larger firms often have more diversified revenue

streams and business segments, potentially leading to reduced risk through effective risk management and diversification, further enhancing their ROE (Barros & Paulo, 2013).

Moreover, firm age another micro-level control factor was found to have a positive relationship with Tobin's Q and stock liquidity in South Africa and the UK, while it had a negative relationship with Tobin's Q in the UK. The age of a firm, (number of years a firm has been listed) may significantly influence its performance, potentially leading to both positive and negative outcomes. On one hand, older firms may have accumulated valuable experience, established brand recognition, and developed strong relationships with customers and suppliers over time, contributing to a positive effect on performance (Achim et al., 2015; Fan et al., 2011; Ujunwa et al., 2012). Additionally, mature firms may have refined their operational processes and strategies, leading to greater efficiency and stability. Conversely, older firms may also face challenges such as resistance to change, outdated business models, and a potential decline in innovative capabilities, which could negatively affect their performance. Furthermore, new entrants or startups often exhibit agility, fresh perspectives, and an ability to capitalize on emerging trends, potentially outperforming older, more established firms. Therefore, firm age can influence performance both positively, through experience and stability, and negatively, through complacency and lack of agility (Santos, 2012; Song, Di Benedetto, & Zhao, 2017).

Thirdly, the liquidity ratio was found to positively affect firm performance in the sampled countries. Studies affirm the positive influence of liquidity on firm performance. Enhanced liquidity enables companies to meet short-term liabilities obligations, bolstering financial stability and creditworthiness (Kraus & Litzenberger, 1973). This strength fosters strong relations with stakeholders and offers potential benefits such as improved credit terms and lower borrowing costs (Scherr, 1989). Moreover, sufficient liquidity provides firms with the flexibility to pursue strategic opportunities, such as investments or expansion plans, without immediate financial constraints (Deloof, 2003). Additionally, a robust liquidity position ensures resilience during economic downturns, contributing to overall firm stability and improved performance (Opler et al., 1999). These findings collectively underscore the positive impact of liquidity ratios on firm performance, underscoring their significance in assessing a company's financial strength and operational adaptability.

Another key finding was that inflation negatively affects firm performance negatively in South Africa and India. This arises because inflation raises input costs like raw materials and labor, squeezing profit margins. Secondly, it creates uncertainty, hindering effective planning and investment decisions. Thirdly, it decreases consumer purchasing power, leading to reduced demand for goods and services. Additionally, inflation often triggers currency depreciation, increasing import costs and debt repayment burdens for businesses. Lastly, government responses to inflation, such as raising interest rates, can further dampen economic activity and hinder firm growth (Barro, 2000; Azam, & Khan, 2022).

While the findings of this study echo those of previous studies, this study contributes to the body of knowledge by introducing a context-specific corporate governance index tailored for firms in each country and its association with financial performance. Moreover, the robust system GMM results address the inherent endogeneity among the variables of interest, as noted by Bhagat and Bolton (2008) and Jackling and Johl (2009).

The third research objective and the corresponding question aimed to assess whether the quality of institutional frameworks affects firm performance in emerging (India and South Africa) and developed (USA and the UK) economies. This research question was answered by testing the hypothesis that 'the quality of institutional frameworks in both emerging and developed markets exhibit a positive and statistically significant correlation with firms' performance in emerging (India and South Africa) and developed (USA and the UK) economies.

The findings from the analysis reveal a notable distinction in the relationship between institutional quality and firm performance in the sampled countries. In emerging economies, the study uncovered a negative correlation between institutional quality and all firm performance indicators. This suggests that weaker institutional frameworks in these regions pose significant challenges for businesses (Bülow, 2015; Rahaman & Otchere, 2021). Deficiencies in areas of voice and accountability control of corruption, political stability, regulatory quality, government effectiveness, and rule of law as demonstrated in the low values of the IQM are likely to have hindered firms from operating efficiently, innovating, and accessing resources.

Conversely, the analysis discovered a positive correlation between institutional quality and firm performance in developed countries. Here, robust legal systems, transparent regulations, efficient governance structures, and reliable infrastructure create an environment conducive to business growth and innovation. Businesses in developed economies benefit from stable legal frameworks, enforceable contracts, and trustworthy regulatory bodies, allowing them to operate with confidence, attract investment, and pursue long-term strategies. The findings underscore the critical role of institutional quality as a facilitator of business success in these contexts.

The findings are in line with the findings of previous studies, which found poor institutional quality negatively affects firm performance. For instance, Winful et al., (2016) demonstrated that high institutional quality has a positive effect on stock market performance, while Olawale and Obinna, (2023) proved that poor institutional quality negatively affected the firm performance of the Oil and Gas Industry in Nigeria. Additionally, the findings from the study confirm the findings of Eldomiaty et al., (2023), who found institutional quality to negatively affect firm performance in the Middle East and North Africa (MENA) region, which is regarded to have weak institutional quality. On the contrary, institutional quality had a positive effect on Tobin's Q in countries (Finland, New Zealand, the Netherlands, Sweden, and Denmark) that are perceived to have high institutional quality. Other studies (e.g., Baumöhl et al., (2019), Faruq and Weidner (2018), and Ghoul et al., (2017), found institutional quality to have a significant positive effect on firm performance in countries perceived to have high-quality institutions.

The connection between institutional frameworks on firm performance stems from the institutional theory, which proposes that the quality of institutions plays a pivotal role in shaping the behavior and performance of firms. This is because institutions create either a supportive or restrictive business environment (Larcker & Tayan 2015). Therefore, robust institutions provide clear rules, safeguard property rights, ensure contract enforcement, and establish a fair playing field, that fosters trust in the business environment (Onaolapo and Onakoya, 2020) while weak governance and weak institutional quality can hinder firm performance. On this basis, the study concludes that Hypothesis 2b which anticipated a positive and statistically significant correlation between the quality of institutional

frameworks and firm performance in both emerging (India and South Africa) and developed (USA and the UK) is supported for developed economies; but rejected in the case of emerging economies.

Building on the results from the effect of institutional quality on firm performance, objective four and the corresponding research question sought to establish whether a country's institutional quality affects the relationship between corporate governance and firm performance in emerging (India and South Africa) and developed (USA and the UK) economies. The research question was answered by testing the hypothesis 'that there exists a mutually reinforcing and significantly positive relationship between corporate governance and institutional quality, each independently contributing to firm performance in emerging (India and South Africa) and developed (USA and the UK) economies.

Findings from this analysis showed that poor institutional quality in emerging markets negatively enforces the relationship between corporate governance and firm performance, while the institutional quality of developed economies positively enforces the relationship between corporate governance and firm performance. The findings support Claessens and Yurtoglu's (2013) assertion that voluntary and formal corporate governance practices are less effective when firms are embedded in weak institutional environments. These findings suggest that strong corporate governance practices, coupled with high institutional quality contribute to improved firm performance (Bhaumik et al., 2012; LiPuma et al., 2011). Sound legal frameworks and regulatory stability provide a supportive backdrop for businesses to thrive and innovate (Claessens & Yurtoglu, 2013). On the contrary, weak institutional quality characterized by corruption, political stability, and poor regulatory and legal frameworks harms the relationship between corporate governance and firm performance mechanisms. These findings support the findings of similar studies (e.g., Chang, 2023; Yasar et al., 2011, and Olawale and Obinna, 2023). Thus, effective governance mechanisms that ensure companies operate ethically, transparently, and in the best interests of stakeholders, improve firm performance if they are supported by high institutional quality (Zingales, 1998). On this basis, the study concludes that Hypothesis 2c which anticipated a positive and statistically significant effect between the interaction of quality of institutional frameworks and the relationship between corporate governance and firm performance in both emerging (India and

South Africa) and developed (USA and the UK) is supported for developed economies; but rejected in the case of emerging economies.

In conclusion, the negative effect of the interaction between corporate governance and institutional quality on all firm performance indicators in emerging economies implies that poor institutional frameworks (government effectiveness, regulatory quality, rule of law, and control of corruption, political stability, absence of violence/terrorism, and voice and accountability) undermine the effectiveness of corporate governance mechanisms (Claessens & Yurtoglu, 2013). Companies operating in such environments are likely to benefit from enhanced governance compliance supported by robust institutional frameworks, leading to better firm performance (Onaolapo & Onakoya, 2020; Black, De Carvalho, & Gorga, 2012). This underscores the need for policymakers in emerging markets to build robust institutions that can foster and enhance corporate governance benefits.

6.2.3 Corporate Governance, Institutional Quality, and Economic Growth

This section discusses results relating to objectives five, six, and seven of this study. Objective five of this study aimed to examine the nature of the relationship between the internal corporate governance compliance score and economic growth in emerging (India and South Africa) and developed (USA and the UK) economies. Results showed a positive relationship between the corporate governance compliance score in all the countries. Findings from the study corroborate those of De Nicolò et al., (2008) who used the corporate governance quality index to assess its effect on different elements of economic growth at the macroeconomic level. Their study found that the quality of corporate governance has a positive and significant effect on economic activities. These activities included per capita gross domestic product, total factor productivity growth, and the proportion of investment to GDP.

Moreover, Andrade and Rossetti (2004) argue that a healthy business environment, fostered by good corporate governance practices, is crucial for promoting economic growth. Lastly, as emphasized by Babic (2003) the importance of corporate governance in emerging economies is a vital step because corporate governance is an enabler of the key drivers of economic growth such as efficient capital allocation, development of financial markets, attraction of

foreign investment, and contribution to national development. Therefore, as revealed by the study, the increased corporate governance compliance levels in emerging economies are the right step toward fostering and realizing ever-elusive economic growth. Based on the findings and the discussion herein, the hypothesis that corporate governance compliance has a significant and positive relationship with economic growth in emerging and developed markets is supported.

Viewed from the agency theory perspective, the findings relating to the relationship between corporate governance and economic growth show that when managers' incentives are aligned to maximize shareholder value (Bebchuk et al., 2004; Wu, 2012), managers are likely to make decisions that enhance firm performance and contribute to economic growth. Secondly, given that agency theory (Fama, 1980; Nandelstadh von and Rosenberg, 2003) aims at achieving efficient resource allocation, and accountable and transparent decision-making processes that are aligned with shareholder interests, this efficiency in resource allocation can result in increased productivity and competitiveness, ultimately driving economic growth.

Lastly, effective corporate governance mechanisms play a crucial role in both risk management and access to capital within firms (Antonczyk & Salzmann, 2014; Bhagat & Bolton, 2019). Effect boards oversee risk assessment and mitigation strategies, ensuring that firms can navigate uncertainties and shocks in the business environment more effectively (Adams et al., 2010; Bozec, 2005). By promoting stability and mitigating risks, corporate governance contributes to creating a conducive environment for investment and growth. Moreover, strong corporate governance practices enhance firms' access to capital as investors are more inclined to provide funding to well-governed companies (Claessens & Yurtoglu, 2013; Rupeika-Apoga, 2014). With greater confidence in the reliability of financial information and the integrity of management, investors are more willing to invest, enabling firms to undertake investment projects, expand operations, and innovate, all of which are vital drivers of economic growth.

The sixth objective of this study sought to examine whether the quality of institutional frameworks affects economic growth in emerging (India and South Africa) and developed (USA and the UK) economies. Anchored on the institutional theory, the study found that

institutional quality frameworks in emerging economies negatively affect economic growth as opposed to their counterparts with high-quality institutional frameworks in developed economies. These findings concur with those of Wandeda, Masai and Nyandem (2021) who found improvement in institutional quality to have a positive effect on economic output growth. Also, Radzeviča and Bulderberga (2018) examined the role of institutional quality in economic growth among the Baltic States, the study found that institutional quality elements such as government effectiveness, regulation, and quality among others positively affect economic growth. Similarly, other studies (e.g., Devangi, Perera and Lee 2013; Alexiou, Tsaliki and Osman, 2014) found a negative relationship between institutional quality and economic growth in Asian countries and Sudan which are deemed to have poor quality institutions. Their findings indicate that the key drivers of poor economic performance are corruption, democratic accountability, and bureaucratic quality.

The findings of this study point out how institutional quality and economic growth can vary across different regions due to the diverse governance frameworks, regulatory environments, and levels of institutional development. Strong institutional quality, characterized by effective legal systems, protection of property rights, and control of corruption, tends to affect economic growth by fostering investor confidence, promoting transparency, and attracting investments (Abubakar, 2020; Acemoglu & Robinson, 2010). In regions where institutions are well established and function effectively, such as in developed countries, the link between institutional quality and economic growth is often more pronounced. Conversely, in regions with weaker institutional quality, such as emerging economies, the effect of institutional quality on economic growth is challenging for several reasons. First, poor institutional governance, lack of transparency, and corruption hinder economic progress despite efforts to improve the economic outlook (North, 1990). Secondly, Murphy and Vishny (1993) argue that institutions influence the incentive structure, and poor-quality institutions can impede economic activity by fostering redistributive politics rather than growth-promoting activities. Thirdly, weak institutions may undermine the positive effect of corporate governance compliance by creating uncertainties, reducing investor confidence, and hindering business operations, ultimately impeding economic growth (Radzeviča & Bulderberga, 2018). On the contrary, high-quality institutions in developed markets may have created an enabling

business environment that encourages innovation, investment, and productivity, leading to positive GDP growth outcomes (Acemoglu & Robinson, 2010).

This study highlights the importance of addressing institutional weaknesses to enhance economic performance and foster sustainable growth, especially in emerging economies. The results relating to the role of institutional quality in economic growth echo North (1986, 1993), who posited that maintaining institutional stability, consistency, and predictability is essential for fostering economic growth and ensuring the efficient operation of contemporary economic systems. Such institutional frameworks should be characterized by a clearly outlined legal system, an impartial third-party government entity responsible for upholding property rights and settling disputes, and a cultural mindset that promotes cost-effective engagement in contracting and trading activities (North 1986, 1993). Based on the findings and the discussion above, the hypothesis relating to institutional quality having a robust and positive effect on economic growth in both emerging and developed economies is supported for developed economies but rejected for emerging economies.

Lastly, the seventh objective sought to assess whether a country's institutional quality affects the relationship between corporate governance and economic growth in emerging (India and South Africa) and developed (USA and the UK) economies. Findings showed that institutional quality negatively affects the relationship between corporate governance and economic growth in emerging economies. Negation of the effect of corporate governance on economic growth in emerging economies is an indication that weak institutional quality erodes the benefits accruing from having robust corporate governance compliance. This is because weak institutions are likely to create uncertainties, reduce investor confidence, and hinder business operations, ultimately impeding economic growth (Radzeviča & Bulderberga, 2018).

On the contrary, institutional quality in developed economies did not negate the effect of corporate governance on economic growth even though the coefficients were not significant in both the UK and the USA. The lack of a significant relationship in the case of the UK and the USA may mean that the effective corporate governance systems in developed economies

are well established and efficient enough and need not rely on institutional quality factors (IMF, 2003).

These findings support the idea that poor institutional quality undermines the effectiveness of corporate governance mechanisms (Claessens & Yurtoglu, 2013,). Daily et al., (2003) posit that weak institutional quality, characterized by ineffective legal systems, lack of protection of property rights, and high levels of corruption, is likely to undermine the effectiveness of corporate governance practices. In such environments as emerging economies where institutions fail to enforce regulations, protect shareholders' rights, and ensure transparency, the effect of good corporate governance on economic growth can be limited North, 1986; 1993).

Therefore, the negative effect of institutional quality on the relationship between corporate governance and economic growth underscores the critical importance of strong institutions in creating an environment conducive to sustainable economic growth. Improving institutional quality in emerging markets is essential to enhance the effectiveness of corporate governance practices and foster economic growth in the end.

This discussion of results ends by suggesting that the effectiveness of corporate governance mechanisms can be influenced by the quality of the institutional environment surrounding firms. A favorable institutional context, including strong legal frameworks, effective regulations, and political stability, can enhance the positive effect of corporate governance practices on both firm performance and economic growth. Conversely, weak corporate governance practices and poor institutional quality can impede firm performance and economic growth. Issues such as board entrenchment, inadequate shareholder protections, or lack of transparency can lead to agency problems, reduced investor confidence, and ultimately, lower firm performance. Similarly, a deficient institutional environment marked by corruption, regulatory inefficiencies, or political instability can undermine the effectiveness of corporate governance practices and hinder the growth and performance of firms.

6.2.4 Comparative Analysis: Corporate Governance, Institutional Quality, Firm Performance, and Economic Growth between Emerging and Developed Economies

Results from the comparative analysis between emerging (India and South Africa) and developed (the UK and the USA) economies showed similar trends for the two dependent variables of firm performance. Results from the combined analysis confirmed what had been revealed at the country level. For instance, the ICGCS had a positively significant effect on firm performance and economic growth in both emerging and developed markets. However, the coefficient of ICGCS for both firm performance and economic growth was greater for emerging markets than in developed markets, suggesting that corporate governance practices have a stronger positive effect on both firm performance and economic growth in emerging economies compared to developed economies.

Secondly, institutional quality was found to hurt firm performance and economic growth in emerging economies but had a positive effect in developed economies. These findings corroborated the findings of Black et al., (2012) who found corporate governance to have a bigger effect on firm performance in emerging economies as compared to developed economies. This could imply that effective corporate governance mechanisms play a more critical role in enhancing both firm performance and economic growth in emerging economies where the institutional frameworks are still of poor quality (Black et al., 2012). The main takeaway for emerging markets is that the significant adherence to corporate governance noted in this study is in the right direction toward achieving economic growth despite the prevailing low institutional quality.

Further, findings showed that the interaction between corporate governance and institutional quality on all firm performance indicators and economic growth leads to a negative effect in emerging economies. These results implied that poor institutional frameworks (government effectiveness, regulatory quality, rule of law, and control of corruption, political stability, absence of violence/terrorism, and voice and accountability) undermine the effectiveness of corporate governance mechanisms (Claessens & Yurtoglu, 2013). Companies operating in such environments are likely to benefit from enhanced governance compliance supported by robust institutional frameworks, leading to better firm performance (Onaolapo & Onakoya,

2020; Black et al., (2012). This underscores the need for policymakers in emerging markets to build robust institutions that can foster and enhance corporate governance benefits.

6.2.5 Effect of spatial, temporal, theoretical and methodological differences on the findings of the study

In understanding the potential reasons for differences between the findings of this study and past studies on corporate governance, institutional quality, firm performance, and economic growth, several key factors emerge including spatial, temporal, theoretical, and methodological differences.

Firstly, the geographical context in which research is conducted plays a crucial role in shaping outcomes. Research findings can vary significantly across regions due to distinct political, economic, and cultural dynamics. For example, corporate governance mechanisms in emerging markets often differ from those in developed economies, as highlighted by La Porta et al., (1998) and Bhagat & Bolton (2008). Thus, by focusing on emerging markets such as India and South Africa alongside developed markets like the UK and the USA, the distinct characteristics of each region may explain variations in findings.

Furthermore, industry-specific differences can also influence outcomes. Different sectors may emphasize various governance practices, with research indicating that industries like financial services typically adhere to stricter corporate governance standards compared to others, such as manufacturing (Claessens & Yafeh, 2012). This variation may account for discrepancies between this study's findings and those of previous research that did not adequately consider sector-specific factors.

Secondly, temporal factors are significant in explaining differences in findings. The historical context of corporate governance practices and policies can evolve over time, leading to variations in research outcomes. Changes in regulatory frameworks, particularly during economic crises, can alter established relationships, as discussed by Petersen and Rajan (1994) and Ghosh (2006). Thus, the timing of data collection and analysis in this study might differ from past studies, highlighting the influence of temporal factors on results.

Economic cycles also play a role, as previous research may have focused on specific economic periods, such as periods of growth or recession, influencing the results reported (Baker et al., 2018). In contrast, this study's broader temporal analysis may yield different insights regarding the relationship between governance and firm performance.

Theoretical differences also provide an explanation for the discrepancies in findings. Prior research has utilized various theoretical perspectives, such as agency theory, institutional theory, and the resource-based view, which can lead to different interpretations of the relationships involved (Jensen & Meckling, 1976; North, 1990; Barney, 1991). By integrating these frameworks in this study, the study provides a more comprehensive understanding that may contrast the outcomes reported in existing literature.

Methodological differences further illuminate potential reasons for varying findings. The choice of research approaches can significantly influence research outcomes. Some studies may rely solely on qualitative case studies, offering in-depth insights but lacking generalizability, while others employ large-scale surveys that might overlook nuanced perspectives (Yin, 2014). This study used a quantitative approach potentially leading to distinct findings in comparison to previous research.

Lastly, differences in sample selection and size can also affect research outcomes. Past studies may have utilized smaller, homogenous samples that do not capture broader trends, as noted by Gilbert and Sorsby (2009). In contrast, this study utilizes a more extensive dataset, encompassing diverse markets and sectors, which may yield more generalizable results and explain differences from prior studies.

In summary, the spatial, temporal, theoretical, and methodological differences identified in this study offer plausible explanations for the variations in findings between this study and previous literature on corporate governance, institutional quality, firm performance, and economic growth. By addressing these differences, this study aspires to contribute new insights to the understanding of these critical themes across varying market contexts.

6.4 Implications for Theory, Practice, and Suggestions for Future Research

6.4.1 Implications of the Study on the Theory

As per the agency theory, owners hire agents (managers) and give them the responsibility to manage their firms (Jensen & Meckling, 1976). Nevertheless, the owners should continue to oversee the activities of the agents by ensuring that firms have strong boards, the rights of the shareholders are upheld, systems for the engagement of stakeholders are put in place, proper systems for accountability and audit are established, and there is disclosure and transparency (Chung & Luo, 2008; Donadelli et al., 2014).

The findings have implications relating to the quality of institutions in which firms operate and as such the institutional theory. Acemoglu and Robinson, (2010); Ahmad andUllah, (2012); and Haxhi and Aguilera, (2017) stated that the quality of institutions matters for both firms and economies. Furthermore, the results corroborated those of Ahmad and Ullah (2012; Bülow (2015), and Zhuo et al., 2021, among others, who established the quality of institutions matters in economic growth. Specifically, Zhuo et al. (2021) concluded that institutional quality indicators that were used to construct the CCGCS are important if the development of economies is to be achieved. This finding has two implications. Firstly, it implies that the quality of institutions enhances the benefits of firm-level governance and where such quality is missing, the benefits of good corporate governance are eroded. Secondly, the results imply that when both the quality of institutions and firm governance are high, both firm performance and economic growth are also better.

Thirdly, these results hold significant implications for policymakers and businesses alike. In emerging economies, policymakers may need to prioritize institutional reforms aimed at enhancing the business environment. Strengthening the rule of law, tackling corruption, improving regulatory efficiency, and investing in infrastructure could help foster economic growth and attract investment. Meanwhile, in developed economies, policymakers should focus on preserving high institutional standards, addressing emerging challenges, and ensuring sustained economic prosperity through effective governance and transparent regulations.

6.4.2 Implications to Practice

Our results have several consequences for practice. First, they imply that compliance with corporate governance codes and practices improves firm performance and economic growth. Firm performance improves due to better use of resources and accountability from those entrusted with managing resources (Black et al., 2006a; Chen, et al., 2009; Shabbir and Padgett, 2005). Secondly, our results imply that owners of firms should implement policies that enhance and enforce corporate governance compliance. Corporations have previously been accused of viewing corporate governance as a tick-the-box exercise (Crichton, 2022; Henry, 2008); however, our findings show that the exercise has value in both emerging and developed economies.

Lastly, the paper contributes to the literature in terms of examining an extending line of research that associates the effects of institutional changes on firm-level financial performance. Furthermore, this paper offers a validation methodology that involves a comparison between developed countries (being known for relatively strong institutional arrangements).

6.4.3 Suggestions for Future Research

This study used a sample that did not categorize firms by industry, foreign or non-foreign, financial, non-financial, or any other category. Future researchers can investigate doing similar research with firms that are categorized by industry or sector and any other parameter that this study has not considered. Likewise, future studies may consider doing a similar study at the sector and single country level to bring out some of the issues that this study was not able to bring out due to its study design. Additionally, the sample can be expanded to include non-listed firms and/or state-owned firms and so. The findings also provide insights for future research, extending to finance-related issues such as investment decisions, capital structure, dividend decisions, and agency problems. For instance, investigating the effect of intuitional quality on dividend policy, investment decisions of firms, or the role of institutional quality in mitigating agency problems would bring value to the scholarly world.

Another approach to future research would be to use Qualitative Comparative Analysis (QCA) to help in comprehending the intricate relationship between corporate governance and performance outcomes. By examining multiple cases and configurations of qualitative variables, QCA may offer a nuanced understanding of the complex corporate governance landscape, informing tailored strategies to enhance governance practices and mitigate risks. Furthermore, findings from this study suggest avenues for future research, where researchers could delve deeper into the specific institutional factors that drive the observed relationships, examining how changes in institutional quality over time affect firm performance in both emerging and developed economies. Likewise, conducting longitudinal studies could provide valuable insights into the dynamic interplay between institutional quality, firm performance, and economic growth. This will inform policy decisions and business strategies aimed at promoting economic growth and sustainability globally. Ultimately, the study underscores the pivotal role of effective governance, transparent regulations, and robust legal frameworks in shaping the success of businesses and driving economic development across diverse economic landscapes.

6.4.4 Recommendations for Policymakers and Practitioners

Practically, the findings relating to the level of corporate governance compliance in emerging and developed economies have several implications for policymakers and practitioners. Firstly, they underscore the importance of harmonizing governance standards and practices across borders to ensure a level playing field for firms operating in global markets. Moreover, practitioners, including corporate leaders and board members, should remain vigilant in ensuring compliance with governance codes and best practices, irrespective of the economic context in which they operate. Additionally, stakeholders should leverage these findings to advocate for reforms that foster a culture of accountability, integrity, and responsible stewardship in corporate governance. By embracing these recommendations, policymakers and practitioners can contribute to building trust, enhancing investor confidence, and ultimately fostering sustainable economic growth and development on a global scale.

Additionally, efforts to improve corporate governance must be complemented by broader institutional reforms to mitigate the adverse impact of institutional weaknesses on firm

performance and economic performance, especially in emerging economies. The findings indicate that policymakers in emerging economies should not solely prioritize corporate governance. Instead, they should pursue a dual strategy focusing on enhancing institutional quality and firm-level governance. This entails directing attention towards improving key institutional aspects such as the rule of law, governmental efficacy, political stability, civic engagement voice and accountability, and reduction of corruption. Therefore, embracing policies conducive to market growth, establishing a robust judiciary, ensuring legal enforcement of contracts, fostering political stability, delivering efficient public services, and bolstering civil liberties and political rights ought to be the primary policy objectives for these nations. Policymakers and practitioners in developed economies may need to shift their focus towards sustaining existing institutional standards and addressing sector-specific challenges rather than prioritizing sweeping institutional changes. From a practical standpoint, these findings underscore the importance of addressing institutional deficiencies in emerging markets to unlock the full potential of corporate governance initiatives.

6.5 Limitations of the Study

Although the research results are significant, any empirical study is likely to suffer from some weaknesses or limitations that need to be highlighted. Firstly, the study used the Generalized Method of Moments /Dynamic Panel Data (GMM/DPD) to operationalize its estimation of parameters. GMM/DPD was considered appropriate because of several reasons. First, GMM/DPD was designed for samples with a "small T' (periods), and large N" (number of) panels, meaning multiple times and multiple variables. In the case of this study, *T* is ten, and *N* is four countries. While the GMM panel data method of estimation offers several advantages, it is noted that the estimation method has shortcomings (Hslao, 2007). Some of the limitations include short time-series proportions, selectivity problems, heterogeneity, and cross-section dependence among others (Baltagi, 2013).

The second limitation arose from the sample size, which was limited to 100 firms from each country. The reason for limiting the sample size of firms included in the study was that data for the construction of the governance indexes and financial performance variables were manually extracted from the annual and financial reports of the sampled firms making the

exercise labor-intensive, time-consuming, and financially constraining (Abdoush et al., 2016; Ntim, 2009). This led to the reduction of the sample size to one that was statistically adequate to make substantial contributions, and at the same time ensure the thesis is completed within the Ph.D.'s timeframe of completion. However, It is assured that the sample size does not impair our findings since similar studies (Aydin, 2019; Ntim, 2009; Zabri et al., 2016) have used the even small sample sizes.

Lastly, the constructed internal corporate governance compliance scores of the different countries may suffer from problems of reliability and validity since they were constructed using a binary coding system as opposed to an ordinal system. This is because the ordinal coding system has been deemed to be less informative (Barako et al., 2006; Hassan and Marston, 2008). In addition, the ICGCS was an un-weighted index, yet non-weighted indexes have been criticized for giving equal weight to all corporate governance disclosures which may not be the case.

The shortcomings mentioned above may have impacted the empirical findings of this study and the conclusions derived from this analysis. Nonetheless, it is supposed that their impact is minimal and that such impact does not significantly affect the empirical and theoretical conclusions of this thesis. The findings of this research must consequently be understood bearing in mind the above limitations.

6.6 Conclusion

This chapter concludes the research with a discussion of findings, implications for theory and practice, recommendations for policymakers and practitioners, suggestions for future research, limitations of the study, and a conclusion. The main interest of this research was fourfold. First, was to find out whether the firms in emerging and developed economies differed in compliance levels with their country's corporate governance codes. Secondly, was to find out whether corporate governance quality positively affected firm performance and economic growth in emerging and developed economies. Thirdly, was to establish whether institutional quality positively affected firm performance and economic growth in emerging and developed economies. The fourth interest was to assess whether the interaction between

institutional quality and corporate governance in emerging and developed economies affected firm performance and economic growth in emerging and developed countries.

Consequently, using Dynamic System GMM to analyze a panel dataset of 4000 firm-year observations from the four countries, the empirical analysis revealed that; (i) firms' compliance levels with their country corporate governance codes in emerging and developed economies do not significantly differ. The second finding was that corporate governance compliance as measured by the internal corporate governance compliance index had a positive effect on firm performance in both emerging and developed economies at the country level and combined level. Third, institutional quality, which was measured by an index comprising seven World Bank governance measures, was found to affect negatively firm performance and economic growth in emerging economies but had a positive effect on firm performance and economic growth in developed economies. Lastly, institutional quality was found to have a negative interaction in the relationship between corporate governance and both firm performance and economic growth in emerging economies. However, the interaction was positive only ROE and economic growth in the USA. The findings differed for the UK as institutional quality as the interaction between institutional quality, corporate governance, and firm performance had a positive effect on ROE, Tobin's Q, and economic growth.

On the aspect of whether corporate governance had a long-term effect on firm performance and economic growth in both emerging and developed countries, the study found a long-run relationship between the internal corporate governance compliance score with ROE, and Tobin's Q in South Africa. Other long-run relationships were noted between firm size, firm age, and Tobin's Q, as well as the liquidity ratio and ROE all in the UK.

In conclusion, the study provides useful and significant evidence on the relationship between corporate governance, institutional quality, firm performance, and economic growth in emerging (South Africa and India) and developed economies of the UK, and the USA. Most importantly, there is a strong business case for linking corporate governance practices to better firm performance, and economic growth. This suggestion is based on the view that companies adopting governance best practices make better business decisions over time,

better manage their risks, enjoy enhanced market reputation, and have improved access to capital.

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APPENDIXES

Appendix 1: ICGCS Assessment Tools for all the Countries

Appendix I (a) ICGCS Assessment Tool for South African Companies

	Questions (Score is 1 if the answer is correct)	Score
A.	Board Leadership and Company Purpose (40%)- refer to the Corporate Governance report	
1	Board size	
	The number of directors on the board is between 6 and 11	1
2	Board independence	
	The proportion of independent directors on the board is above 50%	1
	There are two or fewer executive directors on the board	1
3	Leadership and independence	
	The Chairperson of the board is an independent, non-executive director	1
	A chairperson is not the CEO	1
	The board has a Lead or Senior Independent director	1
	The Company disclosed information on the succession planning for the board and senior management	1
4	Board competencies/Diversity	
	One independent director has experience in the industry of the company.	1
	The company disclose a board diversity policy	1
	There is gender representation on the board- women on the board	1
	There is racial diversity on the board - different races on the board (black, Indian, White race)	1
	Disclosure of orientation programs for a new director	1
	The company has a Company Secretary /Professional Advisor	1
	There is a social Ethics committee on the board	1
5	Board duties and responsibilities	
	The company clearly states the roles and responsibilities of the board of directors.	1
6	Board and committee meetings	
	The main board held at least 6 meetings	1
	The number of meetings held by the remuneration and nomination committee during the year was at least 2	1
	The number of times the audit committee met during the year was at least 4	1
	Individual director attendance at board and committee meetings is given	1
7	There is an Audit and Risk or Risk Committee	1
8	Nominating Committee	
	The nomination committee is comprised of a majority of independent non-executive directors, and the chairperson is independent- look at the membership of the committee	1
	The company set limits on the number of directorships held by Directors	1
9	Selection of directors	
	Is the skills/experience sought disclosed?	1
	Is the process of selection of directors followed disclosed?	1
10	Board and individual director appraisal	
	For board appraisal/evaluation, is the process disclosed in detail?	1
	For board appraisal/evaluation, is the criteria disclosed?	1
	For individual director appraisal/evaluation, is the criteria disclosed? The company does an annual performance assessment of the board committee	1
	Does the company conduct an annual performance evaluation/assessment of the board committees?	1
10	Remuneration or Compensation Committee	
	The chair of the board does not chair Remuneration Committee	1

	The remuneration committee is comprised of most independent non-executive directors, and the chairperson is independent	1
11	Remuneration Governance	
	Is the exact remuneration of the executive directors disclosed?	1
	Is the exact remuneration of the CEO disclosed?	1
	Is the remuneration of the top 5 executives disclosed?	1
	Are the names of the top 5 executives given?	1
	Is the aggregate (total) remuneration paid to the top five key management personnel disclosed?	1
	Are short-term incentives used, e.g., bonuses?	1
	Are long-term incentives used, e.g., provident fund or retirement/ pension fund	1
	Does the company disclose the link between remuneration paid to the executive directors and key management personnel?	1
	Does the Remuneration Committee periodically seek remuneration consultants' advice on remuneration matters for directors?	1
	Are the fees of non-executive directors disclosed?	1
	Is the fee structure of directors disclosed?	1
	Total: Section A	40
B.	Rights of Shareholders - 20%	
	Fundamental shareholder right	
1	Right to participate effectively and vote in general shareholder meetings	
	Do shareholders have the opportunity, evidenced by an agenda item, to approve remuneration (fees, allowances, benefit-in-kind, and other emoluments) or any increases in remuneration for the non-executive directors? YES-I have put 1 for all	1
	Does the company disclose the voting and vote tabulation in the report for the last AGM	1
	Do shareholders have opportunities to ask questions in the latest AGM, and do the meeting minutes detail shareholders' questions and answers? Answer is yes	1
	Does the company disclose the appointment of an independent party (scrutineers/inspectors) to count and validate the votes at the AGM?	1
	Does the company disclose the attendance of the board members of the Board at the latest AGM?	1
	Is poll voting used, instead of a show of hands, for all resolutions at the latest AGM?	1
2	Conduct interested person transactions (IPTs) and management of conflicts of interest	
	Does the company disclose a policy that requires board directors to refrain from participating in board discussions and decision-making processes on an agenda when they have conflicts of interest?	1
	Does the company ensure that Related Party Transactions are conducted fairly and on an arm's length basis?	1
3	Institutional investors	
	Does the share ownership of institutional investors, other than controlling shareholders, exceed 5%? (Check the major shareholder's list)	1
4	Shareholder participation	
	Does the company disclose that it allows shareholders who hold shares through nominees to appoint more than two proxies or to attend AGMs as observers without being constrained by the two-proxy rule?	1
	Does the company disclose detailed information on each agenda item for the AGM in the Notice? If the answer is YES for all)	1
	Does the company publish detailed information on the results of the vote on the website or in the report?	1
	Are all the directors required to stand for re-election at least once every three years?	1
	Do shareholders or the board of directors approve the remuneration of the executive directors and the senior executives (YES FOR ALL)	1
5	Dividend payment	
	Does the company pay dividends (final/annual/interim/special dividends) to all its shareholders?	1
	Is there disclosure of the company's policy on paying dividends if dividends are paid?	1
	If dividends are not paid, is there a disclosure of reasons for not paying out dividends during the financial year?	1

	Total: Section B	17
C.	Engagement of Stakeholders - 10%	
1	Rights of stakeholders established through law and mutual agreements upheld	
	The company makes efforts to ensure customers' health and safety	1
	The company makes an effort to employ eco-friendly and sustainable value chain processes	1
	The company describes how it interacts and cooperates with the relevant communities	1
	The company has anti-corruption programs and procedures	1
	The company describes how it relates to its stakeholders	1
	The company discloses the stakeholder key areas of focus during the reporting period	1
	The company discloses future areas of focus for stakeholder engagement	1
	Did all the directors attend the last AGM	1
2	Performance-enhancing mechanisms for employee participation	
	The company discloses relevant policies to ensure its employees' health, safety, and welfare.	1
	Does the company provide training and development programs for its employees?	1
3	Stock options	
	Is the vesting period for stock options / PSP (Performance share plan) 3 years or more?	1
4	Whistleblowing policy	
	Does the company have a whistleblowing policy?	1
	If the answer to the above is yes, are key policy details disclosed, and is anonymous reporting allowed?	1
	Total: Section C	13
D.	Accountability and Audit - 10%	
1	Composition of the audit committee	
	All the audit committee members are independent and non-executive members	1
	All of the audit committee members have an accounting or financial literacy	1
	The chairperson of the audit committee has an accounting or finance qualification, is independent, and is a non-executive member	1
	The chairperson of the board is not a member of the audit committee	1
2	Risk management and internal control systems	
	The company discloses the process and framework used to assess the adequacy of risk management and internal control systems	1
	The company disclosed that the internal auditor meets or exceeds Internarial Internal Auditing standards (or is qualified)	1
	The annual report has a statement by the board or audit committee on the adequacy of the risk management and internal control systems (including operational, financial compliance, and information technology.	1
	Does the company identify the in-house head/team of internal audit or the name of an external firm that conducts its internal audit?	1
	There is a CEO/CFO certification of financial statements. There is assurance from the CEO and the CFO regarding the effectiveness of the company's risk management and internal control systems.	1
3	External auditor and auditor Report	
	Is the Audit Committee primarily responsible for proposing the appointment and removal of the external auditor? (Role of the audit committee)	1
	Total: Section D	10
E.	Disclosure and Transparency- 25%	
1	Transparent ownership structure	
	Does the company disclose directors' direct and indirect (deemed) shareholdings?	1
2	Quality of Annual Report	
	Does the company's annual report disclose the following items:	
	Are corporate objectives described in the annual report?	1
	Are Financial performance indicators explained in the report?	1
	Non-financial performance indicators-environmental and social performance indicators	1
	Has the company adopted adopting integrated reporting in its Annual Reports	1
	Does the company disclose key risks (including operational risks), and how are these risks	1

	assessed and managed	
3	Disclosure of related party transactions (RPTs) and related party transactions	
	Does the company disclose its policy on handling and approving material-related party transactions?	1
	For each material/significant related party transaction, does the company identify all related parties and their relationship with each party?	1
	Does the company disclose the type of material transactions that require board approval?	1
4	Directorships/Chairmanships in listed companies	
	There is a disclosure of all the directorships and chairmanships held by its directors at present and over the past 3 years.	1
	Is there a disclosure of only the current directorships and chairmanships held by its directors?	
5	Timeliness of release of results	
	The company released its audited annual/financial report no later than 60 days from its financial year-end. (Check the day the chairperson signed the report, whether it is within 60 days after year-end	1
6	Medium of communication	
	Does the company use the following modes of communication?	
	Analyst's briefing/ Media briefing/ Press conferences	1
7	Corporate website	
	Does the company have a code of conduct or ethics (disclosed in the annual report?	1
	Is the link provided on the company website and annual report? (YES, FOR ALL)	1
	Does the website have a dedicated IR link instead of providing the financial information under links such as "News" or "Announcements"? Are the latest financial results available on the website? (YES, FOR ALL)	1
	Are the latest financial results and the latest annual report available on the website? (YES, FOR ALL)	1
	Does the Company have an IT or ICT policy?	1
8	Does the company have a website disclosing up-to-date information on the following?	
	Does the company disclose the corporate group structure in the annual report)	1
	Clear vision and mission statements are given in the annual report.	1
9	Results briefings	
	In the company's annual report, are there commentaries of the board on steps and measures being taken to understand shareholders' viewpoints and concerns, e.g., through analyst briefings, investor roadshows, or Investors' Day briefings?	1
	Total: Section E	20
	Total: Base Score	**100**

Appendix I (b) ICGCS Assessment Tool for Companies listed on the NSE of India

	Questions (Score is 1 if the answer is correct)	**Score**
A.	Board Characteristics - 35%	
1	Board size	
	The number of directors on the board is between 6 and 11	1
2	Board independence	
	The proportion of independent directors on the board is above 51%	1
	Non-executive directors make up a majority of at least 51% of the Board members	1
	Leadership and independence	
3	Chairperson is an independent director- (Not related to the CEO, Not a controlling Shareholder)	1
	The company has a lead independent director	1
	The Chairperson and the Chief Executive Officer (“CEO”) are separate persons	1
	Board competencies/Diversity	
4	One independent director has experience in the industry the company operates.	1
	The company discloses a board diversity policy.	1

	Disclosure of orientation programs for new directors	1
5	Board duties and responsibilities	
	The company clearly states the roles and responsibilities of the board of directors.	1
	The Company disclosed information on the succession planning for the board and senior management	1
6	Board and committee meetings	
	The number of Board meetings was at least 6	1
	The remuneration and nomination committee met at least 2 times during the year	1
	The audit committee met at least 4 times during the year	1
	All directors' attendance at board and committee meetings is given	1
7	Nominating Committee	
	The nomination committee is comprised of a majority of Independent non-executive directors and the chairperson is independent	1
	The Company set limits on the number of directorships held by Directors	1
8	Selection of directors	
	Is the skills/experience sought disclosed?	1
	Is the process followed disclosed?	1
9	Board and individual director appraisal	
	For board appraisal, is the process disclosed in detail?	1
	For board appraisal, is the criteria disclosed?	1
	For individual director appraisal, is the criteria disclosed? The company does an annual performance assessment of the board committee	1
	Does the company conduct an annual performance assessment of the board committees?	1
10	Remuneration Committee	
	The company discloses the engagement of any remuneration consultants and their independence in the company's annual report.	1
	The RC comprises at least three directors.	1
	The remuneration committee is comprised of a majority of Independent non-executive directors and the chairperson is independent	1
11	Executive director/Top 5 executives' remuneration	
	Is the remuneration of executive directors disclosed?	1
	Is the remuneration of the CEO disclosed?	1
	Is the remuneration of the top 5 executives disclosed?	1
	Are the names of the top 5 executives given?	1
	The company discloses in its annual report the policy and criteria for setting remuneration	1
	Does the company disclose the link between remuneration paid to the executive directors and key management personnel and performance?	1
	Does the Remuneration Committee periodically seek remuneration consultants' advice on remuneration matters for directors?	1
12	Non-Executive director fees	
	Are the fees of non-executive directors disclosed?	1
	Is the fee structure disclosed?	1
	Total: Section A	35
B.	Rights of Shareholders - 17%	
1	Fundamental shareholder right	
	Does the company pay dividends (final/annual/interim/special dividends) to all its shareholders within 30 days after the declaration of dividends and after shareholders approve of final dividends at general shareholder meetings? - Check Notice of Books Disclosure	1
2	Right to participate effectively and vote in general shareholder meetings	
	Do shareholders have the opportunity, evidenced by an agenda item, to approve remuneration (fees, allowances, benefit-in-kind, and other emoluments) or any increases in remuneration for the non-executive directors?	1
	Does the company disclose the voting and vote tabulation procedures, declaring both before the meeting proceeds?	1
	Do shareholders have the opportunity to ask questions in the latest AGM, and do the minutes of the	1

	meeting record details of shareholders' questions and answers?	
	Does the company disclose the appointment of an independent party (scrutineers/inspectors) to count and validate the votes at the AGM?	1
	Does the company disclose the attendance of the chairperson of the Board at the latest AGM? Does the company disclose the attendance of the CEO/Managing Director at the latest AGM? Both the questions should be "Y" to get 1 point.	1
	Is poll voting used, instead of a show of hands, for all resolutions at the latest AGM?	1
3	Conduct interested person transactions (IPTs) and management of conflicts of interest	
	Does the company disclose a policy that requires board directors to refrain from participating in board discussions and decision-making processes on the agenda when they have conflicts of interest?	1
	Does the company ensure that Interrelated Party Transactions are conducted fairly and on an arm's length basis?	1
4	Institutional investors	
	Does the share ownership of institutional investors, other than controlling shareholders, exceed 5%? (Check the major shareholders' list)	1
5	Shareholder participation	
	Does the company disclose that it allows shareholders who hold shares through nominees to appoint more than two proxies or to attend AGMs as observers without being constrained by the two-proxy rule?	1
	Does the company disclose detailed information on each agenda item for the AGM in the Notice?	1
	Does the company publish detailed information on the vote results?	1
	Are all the directors required to stand for re-election at least once every three years?	1
	Do shareholders or the board of directors approve the remuneration of the executive directors and the senior executives?	1
	All directors attended the latest AGM	1
6	Dividend payment	
	Is there disclosure of the company's policy on paying dividends if dividends are paid?	1
	Total: Section B	17
C.	Engagement of Stakeholders - 12%	
1	Rights of stakeholders established through law and mutual agreements upheld	
	The company discloses in its annual report its strategy and key areas of focus concerning the management of stakeholder relationships during the reporting period.	1
	The company has arrangements in place to identify and engage with its material stakeholder groups and to manage its relationships with such groups, e.g., a Stakeholder committee	1
	Does the company disclose a policy and its relevant activities?	
	The company makes efforts to ensure customers' health and safety	1
	Companies make an effort to employ eco-friendly and sustainable value chain processes	1
	The company describes how it interacts and cooperates with the relevant communities	1
	The company has anti-corruption programs and procedures	1
	The company describes how it protects creditors' rights	1
2	Stakeholders' avenue for redress for violation of rights	
3	Performance-enhancing mechanisms for employee participation	
	The company discloses relevant policies to ensure its employees' health, safety, and welfare.	1
	Does the company provide training and development programs for its employees? Does the company publish relevant results of such training and development programs in which its employees have been involved?	1
4	Stock options	
	The vesting period for stock options / PSP (Performance share plan) is 3 years or more.	1
5	Whistleblowing policy	
	Does the company have a whistleblowing policy?	1
	If the answer to the above is yes, are key policy details disclosed, and is anonymous reporting allowed?	1
	Total: Section C	12
D.	Accountability and Audit - 10%	

1	Composition of the audit committee	
	The AC comprises at least three directors, all of whom are non-executive and the majority of whom, including the AC Chairperson, are independent	1
	The majority of the audit committee members have an accounting or finance background	1
	Does the audit committee chairperson have an accounting or finance background?	1
	The AC meets with the external auditors, and with the internal auditors, in each case without the presence of Management, at least annually	1
2	Risk management and internal control systems	
	The company discloses the process and framework used to assess the adequacy of risk management and internal control systems	1
	The company discloses that the internal auditor meets or exceeds IIA standards	1
	The annual report has a statement by the board or audit committee on the adequacy of the risk management and internal control systems (including operational, financial compliance, and information technology.	1
	Does the company identify the in-house head/team of internal audit or the name of an external firm that conducts its internal audit?	1
	There is assurance from the CEO and the CFO regarding the effectiveness of the company's risk management and internal control systems.	1
3	External auditor and auditor Report	
	The Audit Committee is primarily responsible for proposing the appointment and removal of the external auditor	1
	Total: Section D	10
E.	Disclosure and Transparency- 26%	
1	Transparent ownership structure	
	Does the company disclose directors' direct and indirect (deemed) shareholdings?	
2	Quality of Annual Report	
	Does the company's annual report disclose the following items:	
	Corporate objectives	1
	Financial performance indicators	1
	Non-financial performance indicators- such as Environmental and Social performance indicators	1
	The Company has published an annual sustainability report	1
	The Company has a positive CG confirmation	1
	The company discloses in its annual report its strategy and key areas of focus regarding the management of stakeholder relationships during the reporting period	1
	Key risks (including operational risks) and how these risks are assessed and managed	1
	Adopting integrated reporting in its Annual Reports	1
3	Disclosure of related party transactions (RPTs) and interested person transactions (IPTs)	
	Does the company disclose a detailed policy that sets out procedures for reviewing and approving material/significant IPTs?	1
	For each material/significant IPT, does the company identify all related parties and their relationship with each party?	1
	For each material/significant IPT, does the company disclose the nature and value of each transaction?	1
	Does the company disclose the type of material transactions that require board approval?	1
4	Directorships/Chairmanships in listed companies	
	There is a disclosure of all the directorships and chairmanships held by its directors at present and over the past 3 years	1
	Is there disclosure of only the current directorships and chairmanships held by its directors?	
5	Timeliness of release of results	
	Financial year-end: Were financial statements released within 31-60 days?	1
6	Medium of communication	
	Does the company use the following modes of communication?	
	Analyst's briefing/ Media briefing/ Press conferences	1
7	Corporate website	
	Are details of its code of conduct or ethics disclosed?	1

	Is the link IR provided on the company website and annual report?	1
	Does the website have a dedicated IR link instead of providing the financial information under links such as "News" or "Announcements"? Are the latest financial results available on the website?	1
	Are the latest financial results and the latest annual report available on the website?	1
	Is the IR contact given on the website/annual report?	1
8	Does the company have a website disclosing up-to-date information on the following?	
	Group corporate structure	1
	Clear vision and mission statements?	1
	Does the company demonstrate email responsiveness to investor relations function promptly and effectively (i.e., within a week)?	1
9	Results briefings	
	In the company's annual report, are there commentaries of the board on steps and measures being taken to understand shareholders' viewpoints and concerns, e.g., through analyst briefings, investor roadshows, or Investors' Day briefings?	1
	Does the company carry out an adequate investor relations policy to ensure regular and effective convey of pertinent information to shareholders?	1
	Total: Section E	26
	Total: Base Score	**100**

Appendix I (c) ICGCS Assessment Tool for companies listed on the LSE in the UK

	Questions (Score is 1 if the answer is correct)	**Score**
	A Board Leadership and Company Purpose	
1	Board size (1)	
	The number of directors on the board is between 6 and 11	1
2	Culture (1)	
	Does the annual report explain the board's activities on how it assesses and monitors culture	1
3	Board Independence (1)	
	Chairperson is an independent, non-executive director and has not served on the board for more than 9 years	1
	The Chairperson is not the CEO	1
	The annual report discloses information on non-executive directors and their independence and factors that might impair their independence	1
	The proportion of independent and non-executive directors on the board is above 50%, excluding the chair	1
	The board has elected one independent non-executive director as Senior Independent Director	1
	Board duties and responsibilities (8)	
	The report clearly states the roles and responsibilities of the board of directors.	1
	The annual report reports on how opportunities and risks to the future success of the business have been considered and addressed	1
	Does the company disclose a policy that requires board directors to refrain from participating in board discussions and decision-making processes on an agenda when they have conflicts of interest?	1
	The chair held meetings with non-executive directors without the executive directors present (see the number of meetings held)	1
	Full-time executive directors should not have more than one non-executive directorship in other companies	1

The company has a Company Secretary	1
All directors are subject to annual re-election	1
The chair's tenure in office is less than 9 or a maximum of years this year	1
Board Diversity and competence (4)	
One independent director has experience in the industry of the company.	1
The company disclosed that it has a board diversity policy.	1
There is gender, and racial diversity, a mix of skills, and experience on the board	1
Disclosure of orientation programs for new directors	1
Board and committee meetings (3)	
The annual report sets out the number of meetings of the board and the individual attendance by directors' committees	1
The number of meetings held by the remuneration and nomination committee during the year was at least 2	1
Individual director attendance at board and committee meetings is given	1
Nomination Committee (3)	
Presence of a nomination committee and it has a report in AR	1
Disclosure of recruiting consultant for the board	1
The nomination committee is comprised of the majority of independent non-executive directors and chairperson is independent	1
Board Performance Appraisal (3)	
For board appraisal, are the process and criteria disclosed in detail?	1
For individual director appraisal, is the criteria disclosed?	1
Does the company conduct an annual performance assessment of the board and the board committees?	1
Remuneration Committee (2)	
The board has a remuneration committee made of independent non-executive directors with at least 3 members, and the board chair does not chair the committee	1
There is a description of the work of the remuneration committee in the report	1
Executive director/Top 5 executives' remuneration (5)	
Is the remuneration of executive directors disclosed?	1
Is the aggregate remuneration paid to the top five key management personnel disclosed?	1
Are the fees of non-executive directors disclosed?	1
Is the fee structure disclosed?	1
Does the Remuneration Committee periodically seek remuneration consultants' advice on remuneration matters for directors?	1
Total: Section A	35
Shareholder Fundamental Rights	
Does the company have a dividend distribution policy? I.e., the company explains how it will pay dividends/ or why it will not pay dividends	1
Do shareholders have the opportunity, evidenced by an agenda item, to approve remuneration (fees, allowances, benefit-in-kind, and other emoluments) or any increases in remuneration for the non-executive directors?	1
Does the company disclose the voting and vote tabulation procedures, declaring both before the meeting proceeds?	1
Do shareholders have opportunities to ask questions in the latest AGM, and do the meeting minutes record details of shareholders' questions and answers?	1
Does the company disclose the appointment of an independent party (scrutineers/inspectors) to count and validate the votes at the AGM?	1
Does the company disclose the attendance of the chairperson of the Board and the CEO	1

at the latest AGM?	
Does the company disclose the attendance of the CEO at the latest AGM?	1
Is poll voting used, instead of a show of hands, for all resolutions at the latest AGM?	1
Does the company charge fees for shareholders to be able to vote?	
Does the company disclose a policy that requires board directors to refrain from participating in board discussions and decision-making processes on the agenda when they have conflicts of interest?	1
Does the company ensure that Inter Party Transactions are conducted fairly and on an arm's length basis?	1
Does the company disclose that it allows shareholders who hold shares through nominees to appoint more than two proxies or to attend AGMs as observers without being constrained by the two-proxy rule?	1
Does the company disclose detailed information on each agenda item for the AGM in the Notice?	1
Does the company publish detailed information about the vote results?	1
Do shareholders or the board of directors approve the remuneration of the executive directors and the senior	1
Does the company disclose a policy that requires board directors to refrain from participating in board discussions and decision-making processes on an agenda when they have conflicts of interest?	1
Does the share ownership of institutional investors, other than controlling shareholders, exceed 5%?	1
Did all the directors attend the latest AGM	1
Electronic means of voting exist for shareholders on the website	1
The capital structure of the company (list of shareholders and number of shares held) is disclosed in the annual report	1
Having a policy that prevents non-executive directors from selling stock before leaving the company	1
Total: Section B	20
Engagement of Stakeholders - 10%	
Performance-enhancing mechanisms for employee participation exist, e.g., employee training	1
Do employees participate in stock option plans	1
Is the vesting period for stock options / PSP (Performance share plan) 5 years or more?	1
Does the company have a whistle-blowing policy	1
Board gives a system of engaging with its employees through a panel or designated director, or a director appointed by workers	1
There is a report/statement indicating that the chair sought engagement with shareholders	1
The company discloses the relevant policy to ensure its employees' health, safety, and welfare.	1
The company has anti-corruption programs and procedures in place	1
The company describes how it relates to the community and other stakeholders	1
The company makes an effort to employ eco-friendly and sustainable value chain processes	1
Total: Section C	10
Accountability and Audit - 10%	
An audit committee is made of independent non-executive directors- a minimum of 3 members	1
The audit committee members have competence relevant to the sector	1

Does the audit committee chairperson have an accounting or finance background?	1
The annual report describes the work of the audit committee	1
The company has a board-level risk committee comprising independent directors	1
The directors have explained in the annual report their responsibility for preparing the annual report and account through the management letter	1
The board has confirmed in the annual report that they did a robust assessment of emerging and principal risks	1
The board has reported on the effectiveness of the internal control systems in the annual report	1
The board has stated that it is appropriate to adopt the going concern basis of accounting in preparing the reports	1
There is a going concern assurance from the board in the annual reports	1
Total: Section D	10
V. Transparency and disclosure	
Transparent ownership structure	
Does the company disclose directors' direct and indirect (deemed) shareholdings?	1
Quality of Annual Report	
Does the company's annual report disclose the following items:	
Corporate objectives	1
Financial performance indicators	1
Non-financial performance indicators	1
Key risks (including operational risks) and how these risks are assessed and managed	1
The Company has published an annual sustainability report	1
Disclosure of related party transactions (RPTs) and interested person transactions (IPTs)	1
Does the company disclose a detailed policy that sets out procedures for reviewing and approving material/significant IPTs?	1
For each material/significant IPT, does the company disclose the nature and value of each transaction?	1
Does the company disclose the type of material transactions that require board approval?	1
Directorships/Chairmanships in listed companies	
There is a disclosure of all the directorships and chairmanships held by its directors at present and over the past 3 years.	1
Is there disclosure of only the current directorships and chairmanships held by its directors?	1
Timeliness of release of results	
Financial year-end. Three points, if released within 30 days, give 1 point if financial statements are released within 31-60 days.	1
The company released its audited annual/financial report no later than 60 days from the company's financial year-end	1
Medium of communication	
Does the company use the following modes of communication?	
Analyst's briefing/ Media briefing/ Press conferences	1
Corporate website	
Are details of its code of conduct or ethics disclosed?	1
Is the link provided on the SGX website and/or annual report?	1
Does the website have a dedicated IR link instead of providing the financial information under links such as "News" or "Announcements"? Are the latest financial results available on the website?	1

Are the latest financial results and the latest annual report available on the website?	1
Is the IR contact given on the website/annual report?	1
Does the company have a website disclosing up-to-date information on the following:	
Group corporate structure	1
Clear vision and mission statements?	1
Does the company demonstrate email responsiveness to investor relations function promptly and effectively (i.e., within a week)?	1
Results briefings	
In the company's annual report, are there commentaries of the board on steps and measures being taken to understand shareholders' viewpoints and concerns, e.g., through analyst briefings, investor roadshows, or Investors' Day briefings?	1
Does the company carry out an adequate investor relations policy to ensure regular and effective convey of pertinent information to shareholders?	1
	25
Total Internal Governance Score	**100**

Appendix I (d) ICGCS Assessment Tool for companies listed on the NYSE in the USA

	Questions (Score is 1 if the answer is correct)	**Score**
A.	Board Characteristics/ - 39%	
1	Board size	
	The number of directors on the board is between 6 and 11	1
2	Board independence	
	The proportion of independent directors on the board is above 51%. If not, the company has explained why the ratio is below the minimum.	1
	Non-executive directors make up a majority of at least 51% of the Board members	1
3	Leadership and independence	
	Chairperson is an independent director- (Not related to the CEO, Not a controlling Shareholder)	1
	No director has exceeded three years in office.	1
	The company has a lead independent director (Assume 1). If all the above answers are 1	1
	The Chairperson and the Chief Executive Officer (“CEO”) are separate persons	1
	The company's Board of Directors is not divided into more than three classes.	1
4	Board competencies/Diversity	
	The Board Diversity ratio is higher than 33.33%	1
	The company discloses a board diversity policy in its annual reports	1
	Disclosure of orientation and training programs for new directors	1
5	Board duties and responsibilities	
	The company clearly states the roles and responsibilities of the board of directors.	1
	The Company disclosed information on the succession planning for the board and senior management	1
6	Board and committee meetings	
	The company held meetings of its Board of Directors at least 4 times	1
	The remuneration and nomination committee met at least 2 times during the year	1
	The audit committee met at least 4 times during the year	1
	All directors’ attendance at board and committee meetings is given	1
	The independent directors met regularly with non-independent directors	1

7	Nominating Committee (NC)	
	The nomination committee is comprised of a majority of independent non-executive directors, and the chairperson is independent	1
	The board has a formal written charter or board resolution on the process of nominating directors	1
	There is an annual performance evaluation report of the committee	1
	The committee has given a comprehensive report	1
	The company set limits on the number of directorships held by Directors	1
8	Board and individual director appraisal	
	For board appraisal, is the process disclosed in detail?	1
	For board appraisal, is the criteria disclosed?	1
	For individual director appraisal, is the criteria disclosed? The company does an annual performance assessment of the board committee	1
9	Compensation Committee	
	The compensation committee has disclosed its written charter in the report - Proxy statement	1
	An annual performance evaluation of the compensation committee was done, and a report was given.	1
	The company discloses the engagement of any remuneration consultants and their independence in the company's annual report.- Search in the proxy statement	1
	The RC comprises at least three independent directors.	1
	The remuneration committee is comprised of at least 3 independent non-executive directors, and the chairperson is independent	1
	A compensation committee report on executive compensation is given in the annual report	1
10	Remuneration Governance	
	Is the remuneration of executive directors disclosed?	1
	Are the names of the top 5 executives given?	1
	The company discloses in its annual report the policy and criteria for setting remuneration	1
	Does the company disclose the link between remuneration paid to the executive directors and key management personnel and performance?	1
	Does the Remuneration Committee periodically seek remuneration consultants' advice on remuneration matters for directors?	1
	Are the fees of non-executive directors disclosed?	1
	Is the fee structure disclosed?	1
	Total: Section A	39
B.	Rights of Shareholders - 15%	
1	Fundamental shareholder right	
	Does the company pay dividends (final/annual/interim/special dividends) to all its shareholders within 30 days after the declaration of dividends and after shareholders approve of final dividends at general shareholder meetings? - Check Notice of Books Disclosure	1
2	Right to participate effectively and vote in general shareholder meetings	
	Do shareholders have the opportunity, evidenced by an agenda item, to approve remuneration (fees, allowances, benefit-in-kind, and other emoluments) or any increases in remuneration for the non-executive directors?	1
	Does the company disclose the voting and vote tabulation procedures, declaring both before the meeting proceeds?	1
	Do shareholders have opportunities to ask questions in the latest AGM, and do the	1

	meeting minutes record details of shareholders' questions and answers?	
	Does the company disclose the appointment of an independent party (scrutineers/inspectors) to count and validate the votes at the AGM?	1
	Does the company disclose the attendance of the chairperson of the Board at the latest AGM? Does the company disclose the attendance of the CEO/Managing Director at the latest AGM? Both the questions should be "Y" to get 1 point.	1
	Is poll voting used, instead of a show of hands, for all resolutions at the latest AGM?	1
3	Conduct interested person transactions (IPTs) and management of conflicts of interest	
	Does the company disclose a policy that requires board directors to refrain from participating in board discussions and decision-making processes on an agenda when they have conflicts of interest?	1
	Does the company ensure that Interrelated Party Transactions are conducted fairly and on an arm's length basis?	1
4	Institutional investors	
	Does the share ownership of institutional investors, other than controlling shareholders, exceed 5%? (Check the major shareholders' list)- Look at the list of shareholders	1
5	Shareholder participation	
	Does the company disclose that it allows shareholders who hold shares through nominees to appoint more than two proxies or to attend AGMs as observers without being constrained by the two-proxy rule?	1
	Does the company disclose detailed information on each agenda item for the AGM in the Notice?	1
	Does the company publish detailed information on the vote results?	1
	Do shareholders or the board of directors approve the remuneration of the executive directors and the senior executives?	1
	All directors attended the latest AGM	1
	Total: Section B	15
C.	Engagement of Stakeholders - 12%	
1	Rights of stakeholders established through law and mutual agreements upheld	
	The company discloses in its annual report its strategy and key areas of focus concerning the management of stakeholder relationships during the reporting period.	1
	The company has arrangements in place to identify and engage with its material stakeholder groups and to manage its relationships with such groups, e.g., a Stakeholder committee	1
	Does the company disclose a policy and its relevant activities?	
	The company makes efforts to ensure customers' health and safety	1
	The company makes an effort to employ eco-friendly and sustainable value chain processes	1
	The company describes how it interacts and cooperates with the relevant communities	1
	The company has anti-corruption programs and procedures	1
	The company describes how it protects creditors' rights	1
2	Performance-enhancing mechanisms for employee participation	
	The company discloses relevant information policies to ensure the health, safety, and welfare of its employees	1
	Does the company provide training and development programs for its employees? Does the company publish relevant results of such training and development programs in which its employees participated?	1
3	Stock options	
	The vesting period for stock options / PSP (Performance share plan) is 3 years or more.	1
4	Whistleblowing policy	

	Does the company have a whistleblowing policy?	1
	If the answer to the above is yes, are key policy details disclosed, and is anonymous reporting allowed?	1
	Total: Section C	12
D.	Accountability and Audit - 10%	
1	Composition of the audit committee	
	The company had certified that it has adopted a formal written audit committee charter and that the audit committee has reviewed and reassessed the adequacy	1
	The AC comprises at least three directors, all of whom are non-executive and the majority of whom, including the AC Chairperson, are independent	1
	The majority of the audit committee members have an accounting or finance background	1
	The audit committee met at least 4 times in the year	1
2	Risk management and internal control systems	
	The company discloses the process and framework used to assess the adequacy of risk management and internal control systems	1
	The company disclosed that the internal auditor meets or exceeds International Internal Auditing standards	1
	The annual report has a statement by the board or audit committee on the adequacy of the risk management and internal control systems (including operational, financial compliance, and information technology.	1
	Does the company identify the in-house head/team of internal audit or the name of an external firm that conducts its internal audit?	1
	There is assurance from the CEO and the CFO regarding the effectiveness of the company's risk management and internal control systems.	1
3	External auditor and auditor Report	
	The Audit Committee is primarily responsible for proposing the appointment and removal of the external auditor.	1
	Total: Section D	10
E.	Disclosure and Transparency- 25%	
1	Transparent ownership structure	
	Does the company disclose directors' direct and indirect (deemed) shareholdings?	1
2	Quality of Annual Report	
	Does the company's annual report disclose the following items:	
	Corporate objectives	1
	Financial performance indicators	1
	Non-financial performance indicators- such as Environmental and Social performance indicators	1
	The Company has published an annual sustainability report	1
	The Company has a positive Corporate Governance confirmation	1
	The company discloses in its annual report its strategy and key areas of focus concerning the management of stakeholder relationships during the reporting period	1
	Key risks (including operational risks) and how these risks are assessed and managed	1
	Adopting integrated reporting in its Annual Reports	1
3	Disclosure of related party transactions (RPTs) and interested person transactions (IPTs)	
	Does the company disclose a detailed policy that sets out procedures for reviewing and approving material/significant IPTs?	1
	For each material/significant IPT, does the company identify all related parties and their relationship with each party?	1

	For each material/significant IPT, does the company disclose the nature and value of each transaction?	1
	Does the company disclose the type of material transactions that require board approval?	1
4	Directorships/Chairmanships in listed companies	
	There is a disclosure of all the directorships and chairmanships held by its directors at present and over the past 3 years	1
5	Timeliness of release of results	
	Financial year-end: Financial statements were released within 31-60 days.	1
6	Medium of communication	
	Does the company use the following modes of communication?	
	Analyst's briefing/ Media briefing/ Press conferences	1
7	Corporate website	
	The code of conduct and ethics must be publicly available on the website	1
	Does the website have a dedicated IR link instead of providing the financial information under links such as "News" or "Announcements"? Are the latest financial results available on the website?	1
	Are the latest financial results and the latest annual report available on the website?	1
	Is the Investor Relation contact given on the website/annual report?	1
8	Does the company have a website disclosing up-to-date information on the following?	
	Group corporate structure	1
	Clear vision and mission statements?	1
9	Results briefings	
	In the company's annual report, are there commentaries of the board on steps and measures being taken to understand shareholders' viewpoints and concerns, e.g., through analyst briefings, investor roadshows, or Investors' Day briefings?	1
	Does the company carry out an adequate investor relations policy to ensure regular and effective convey of pertinent information to shareholders?	1
	Total: Section E	24
	Total: Base Score	100

Appendix 2 – Comparison of panel data analysis techniques

Technique	Important Assumption(s)	Estimation procedure	Properties	Suitability for the current research
Pooled OLS	Pooled OLS assumes that the relationship between the dependent and independent variables is homogeneous across all groups or sources. In other words, it assumes that the coefficients of the independent variables are the same across all groups.	Uses the OLS method to estimate the coefficients	Pooled OLS combines data from multiple sources or groups into a single dataset for analysis.	Pooled OLS is not suitable for this type of study because exploits the panel structure fully. Not suitable because Pooled OLS may produce biased estimates if the relationship between the variables varies significantly across groups.
Fixed effect	The key assumption in FEMs is that the individual-specific effects (fixed effects) are correlated with the independent variables.	Uses panel data regression techniques, such as ordinary least squares (OLS) or feasible generalized least squares (FGLS), to estimate the coefficients of the independent variables and the entity-fixed effects.	Accounts for unobserved heterogeneity across entities (such as individuals, firms, or countries) by including entity-specific fixed effects in the regression analysis.	The use of FE models may not be able to handle time series and cross-sectional data. Secondly, the decision to use FE or RE depends on the Haussmann test. Not designed for samples with a "small T' (periods), and large N" (number of) panels, meaning multiple times and multiple variables

Random effect	The random effects assumption in REMs states that the time-invariant heterogeneity (individual-specific effects) between different clusters (entities) is uncorrelated with the error term.	Restricted Maximum Likelihood (REML) or Generalized Least Squares (GLS).	Allows for the inclusion of individual-specific effects, which capture unobserved heterogeneity across entities in the panel data. These effects are assumed to be random and uncorrelated with the regressors.	The random effects assumption in REMs may not be met by the data structure of this study. Not designed for samples with a "small T' (periods), and large N" (number of) panels, meaning multiple times and multiple variables
GMM	GMM is particularly well-suited for panel data, where observations are collected on multiple subjects over multiple periods.	Uses the method of moments to estimate the parameters by minimizing the sample analogs of the moment conditions. This involves finding parameter values that make the sample moments as close to zero as possible.	They use only the information contained in the moment conditions, making them optimal within this class of estimators. By combining time series and cross-sectional data, GMM allows researchers to analyze panel data, which	Suitable for this study because GMM/DPD is designed for samples with a "small T' (periods), and large N" (number of) panels, meaning multiple times and multiple variables. GMM is a flexible estimation technique that can handle endogeneity and dynamic models. It allows for

	consists of observations on multiple entities over multiple periods. This enables the examination of both within-entity and between-entity variations, providing richer insights into economic relationships and dynamics.	moment-based estimation using moment conditions. GMM is useful when dealing with complex relationships and potential endogeneity issues. The model takes care of heteroscedasticity and autocorrelation.

Appendix 3: Variance Inflation Factors and Tolerance Statistics

Independent Variables	**ROE**		**SL**		**TQ**		**GROWTH IN GDP**	
			Panel A: South Africa					
Dependent variables	VIF	TS	VIF	TS	VIF	TS	VIF	TS
IQM	3.28	0.31	3.28	0.3	3.28	0.31	1.42	0.7
ICGCS	1.08	0.92	1.08	0.9	1.08	0.92	1.08	0.92
CCGCS	-	-	-		-	-	-	-
TQ	1.12	0.89	1.23	0.8	-	-	1.23	0.81
ROE	-	-	1.14	0.8	1.04	0.96	1.14	0.88
SL	1.07	0.94	-		1.06	0.94	1.07	0.94
TA	1.14	0.87	1.15	0.8	1.06	0.94	1.15	0.87
AGE	1.06	0.94	1.03	0.9	1.05	0.95	1.06	0.94
GROWTH IN GDP	3.66	0.27	3.66	0.2	3.66	0.27	-	-
INFLATION	4.29	0.23	4.29	0.2	4.29	0.23	2	0.5
FDI	1.22	0.82	1.23	0.8	1.23	0.81	1.19	0.84
GROWTH IN POPULATION	8.04	0.12	8.05	0.1	8.05	0.12	3.88	0.26

Panel B: India								
Independent Variables	**ROE**		**SL**		**TQ**		**GROWTH IN GDP**	
	VIF	TS	VIF	TS	VIF	TS	VIF	TS
ICGCS	1.2	.84	.21	.83	.19	.84	1.21	0.83
IQM	.97	).1	.96	).1	.96	).1	5.6	0.18
CCGCS	.66	.54	.62	.86	.96	.54	1.75	0.57
TQ	.02	.98	.01	.99	-	-	1.02	0.98
ROE	-	-	.02	.98	.03	.97	1.02	0.98
SL	.02	.98	-	-	.02	.98	1.02	0.98
TA	.04	.96	.48	.04	.05	.95	1.04	0.96
AGE	.09		.06	.09	.09	.92	1.09	0.92
GROWTH IN GDP	.19	.46	.07	.19	.19	.46	-	-
INFLATION	0.4	).1	.98	.34	).43	).1	5.31	0.19
FDI	.86	.54	.72	.86	.86	.54	1.75	0.57
GROWTH IN POPULATION	.42	).7	.42	).7	.43	).7	1.42	0.7
Panel C: United Kingdom								
Independent Variables	**ROE**		**SL**		**TQ**		**GROWTH IN GDP**	
Variables	VIF	TS	VIF	TS	VIF	TS	VIF	TS
ICGCS	2.4	).42	2.4	).42	2.39	).42	2.32	0.43
IQM	4.77	).21	4.77	).21	4.77	).21	3.85	0.26
CCGCS	1.09	).92	1.06	).95	1.09	).92	1.09	0.92
TQ	1.22	).82	1.39	).72	-	-	1.39	0.72
ROE	-	-	1.19	).84	1.04	).96	1.19	0.84
SL	1.03	).97	-	-	1.03	).97	1.03	0.97
TA	1.24	).81	1.22	).82	1.09	).92	1.23	0.81
AGE	-	-	1.06	).94	1.04	).96	1.06	0.94
GROWTH IN GDP	2.31	).43	2.99	).33	2.98	).34	-	-
INFLATION	2.42	).41	2.42	).41	2.42	).41	2.24	0.45
FDI	4.85	).21	4.85	).21	4.85	).21	4.24	0.24
GROWTH IN POPULATION	3.53	).28	3.55	).28	3.54	).28	2.67	0.37
Panel D: USA								
Independent Variables	**ROE**		**SL**		**TQ**		**ROWTH IN GDP**	
Variables	VIF	TS	VIF	TS	VIF	TS	VIF	TS
ICGCS	1.09	).92	1.08	).93	1.08	).92	1.09	0.92
IQM	1.36	).73	1.35	).74	1.35	).74	1.32	0.75
CCGCS	7.64	1.13	3.66	2.13	5.65	2.13	5.43	3.13
TQ	1.45	).69	1.46	).68	-	-	1.46	0.68
ROE	-	-	1.01	).99	1.01	).99	1.01	0.99
SL	1.15	).87	-	-	1.15	).87	1.15	0.87
TA	1.52	).66	1.49	).67	1.1	).91	1.52	0.66
AGE	1.09	).92	1.06	).95	1.09	).92	1.09	0.92
GROWTH IN GDP	2.15	).47	2.15	).47	2.15	).47	-	-
INFLATION	3.22	).31	3.22	).31	3.22	).31	2.13	0.47
FDI	1.77	).57	1.77	).57	1.77	).57	1.73	0.58
GROWTH IN POPULATION	2.41	).41	2.41	).41	2.41	).41	2.35	0.43
Panel C: Emerging Economies (SA and India)								
Independent Variables	**ROE**		**SL**		**TQ**		**GROWTH IN GDP**	
Variables	VIF	TS	VIF	TS	VIF	TS	VIF	TS
ICGCS	7.64	).13	7.66	).13	7.65	).13	7.43	0.13
IQM	1.51	).66	1.51	).66	1.51	).66	1.48	0.68
CCGCS	3.56	).12	3.55	).12	3.54	).12	7.18	0.14
TQ	1.03	).97	1.03	).97	-	-	1.03	0.97
ROE	-	-	1.08	).92	1.09	).92	1.08	0.93
SL	1.04	).96	-	-	1.04	).97	1.04	0.96
TA	3.38	0.3	3.89	).26	3.89	).26	3.88	0.26

AGE	1.08	0.93	1.07	0.93	1.08	0.93	1.08	0.93
Growth in GDP	5.32	0.19	5.35	0.19	5.34	0.19	-	-
Inflation	1.59	0.63	1.6	0.63	-	-	1.61	0.62
FDI	6.09	0.16	6.11	0.16	6.1	0.16	7.43	0.13
Growth in Population	2.78	0.36	2.78	0.36	2.78	0.36	2.58	0.39
Panel D: Developed Economies (USA and UK)								
Independent Variables	**ROE**		**SL**		**TQ**		**GROWTH IN GDP**	
Variables	VIF	TS	VIF	TS	VIF	TS	VIF	TS
ICGCS	3.74	0.27	3.73	0.27	3.73	0.27	3.66	0.27
IQM	7.23	0.14	7.21	0.14	7.92	0.13	6.03	0.17
CCGCS	1.09	0.92	1.06	0.95	1.09	0.92	1.09	0.92
TQ	1.34	0.75	1.35	0.74	-	-	1.34	0.75
ROE	-	-	1.01	0.99	1.01	0.99	1.01	0.99
SL	1.01	0.99	-	-	1.01	0.99	1.01	0.99
TA	1.26	0.79	1.26	0.79	1.03	0.97	1.26	0.79
AGE	1.13	0.89	1.12	0.89	1.12	0.9	1.13	0.88
GROWTH IN GDP	6.19	0.16	6.19	0.16	6.18	0.16	-	-
INFLATION	1.51	0.66	1.51	0.66	1.51	0.66	1.48	0.68
FDI	3.56	0.12	3.55	0.12	3.54	0.12	7.18	0.14
G_POPULATION	1.63	0.61	1.63	0.61	1.63	0.61	1.6	0.63