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(Review Article)

Corporate governance and firm value: A systematic review

Rakesh N * and Pooja Kumari

School of Commerce – JAIN (Deemed to be) University – Jayanagar, Bengaluru, Karnataka- 560069, India.

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Abstract

Purpose: This study systematically reviews the relationship between corporate governance mechanisms—specifically board composition, executive compensation, and shareholder rights—and firm value. It aims to synthesise empirical findings, identify contextual variations, and highlight the theoretical and practical implications across both developed and emerging markets.

Design/Methodology/Approach: A systematic literature review was conducted, analysing more than 400 empirical and theoretical studies published between 2001 and 2025. The review integrates agency, stakeholder, and resource-dependence theories to evaluate governance–value linkages, while considering sustainability and ESG factors as moderating variables.

Findings: Results indicate that independent and diverse boards enhance monitoring and firm performance; that performance-linked executive pay aligns managerial and shareholder interests; and that robust shareholder rights reduce agency conflicts. However, these effects vary with institutional quality, ownership structure, and regulatory context.

Implications/Originality/Value: This study makes a significant contribution by consolidating fragmented governance research into an integrated framework. It highlights the increasing importance of sustainability and ESG disclosure in shaping governance effectiveness and guiding policymakers, investors, and corporate leaders seeking to optimise governance for long-term value creation.

Keywords: Corporate Governance; Firm Value; Board Composition; Executive Compensation; Shareholder Rights; ESG Integration

1. Introduction

Corporate governance remains a cornerstone of modern corporate strategy and financial performance. Defined as the framework of rules, relationships, and processes by which corporations are directed and controlled, governance mechanisms directly shape investor confidence and firm competitiveness (Hermalin & Weisbach, 2001; Black et al., 2020). As globalisation, regulatory reforms, and stakeholder activism redefine accountability standards, understanding how governance mechanisms influence firm value has become a critical research and policy priority.

Early governance research emphasised agency theory, proposing that well-structured governance reduces conflicts between managers and shareholders. Over time, attention expanded to include executive compensation, board diversity, and sustainability disclosures as central governance dimensions (Beaufort et al., 2025; Sari et al., 2025). Empirical evidence suggests that firms with robust governance structures exhibit superior valuation metrics such as Tobin's Q, market capitalisation, and return on assets (Monda & Giorgino, 2013; Bubbico et al., 2012). However, findings

* Corresponding author: Rakesh N

remain heterogeneous across markets, raising questions about the universality and contextual adaptability of these approaches (Simiyu, 2024; Almaqtari et al., 2022).

This study reexamines the impact of corporate governance on firm value, focusing on three interrelated components: board composition, executive compensation, and shareholder rights. By integrating cross-country analyses with theoretical frameworks such as agency, stakeholder, and resource-dependence theories, it seeks to clarify ambiguities and to highlight future research directions.

2. Literature Review

2.1. Board Composition and Firm Value

Board composition—including independence, diversity, and size—has long been linked to firm value. Empirical research shows that independent boards enhance monitoring and transparency, thereby mitigating agency problems (Vetrivel et al., 2024; Petrova, 2023). Gender and expertise diversity improve decision quality, innovation, and risk management (Freitas, 2018; Bawa et al., 2025). Nonetheless, results vary across contexts. In emerging markets, concentrated ownership and family-controlled structures sometimes weaken the positive effects of independence (Black et al., 2012; Klein et al., 2005).

Several studies also reveal nonlinear relationships: overly large boards may hinder decision-making, while smaller and more diverse boards strike a balance between oversight and agility (Salem et al., 2019; Almaqtari et al., 2022). The evidence underscores that optimal board configurations depend on contextual factors, including market maturity and governance enforcement.

2.2. Executive Compensation and Firm Performance

Executive compensation serves as a central mechanism for aligning the interests of managers and shareholders. Performance-linked pay, including stock options and long-term incentives, has been shown to enhance firm value by incentivising goal congruence (Vetrivel et al., 2024; Aperte, 2013). However, the relationship is not always linear. Excessive compensation or weak performance metrics may induce risk-taking or rent extraction (Kumar & Sivaramakrishnan, 2008; Malik & Waheed, 2022).

Recent research integrates sustainability metrics into executive pay, linking compensation to ESG outcomes (Morrison et al., 2024; Utomo et al., 2025). This evolution reflects a paradigm shift from short-term profitability to sustainable value creation, although empirical support for these hybrid models remains under development.

2.3. Shareholder Rights and Agency Problem Mitigation

Shareholder rights—voting power, transparency requirements, and anti-takeover provisions—form the external backbone of governance frameworks. Studies consistently show that strong shareholder protections improve market valuation by reducing managerial opportunism (Li & Zaiats, 2017; Monda & Giorgino, 2013). However, the strength of these relationships varies across different legal systems and cultural norms (Uyar et al., 2025; Black et al., 2020). In countries with weak enforcement or family ownership dominance, shareholder rights alone may be insufficient to drive firm value (Chai-Aun et al., 2016).

2.4. Integration of ESG and Sustainability

An emerging theme in governance literature is the integration of ESG (Environmental, Social, and Governance) principles into traditional governance frameworks. Studies reveal that sustainability reporting and ethical governance practices not only enhance reputation but also moderate the relationship between governance quality and firm performance (Uyar et al., 2025; Quttainah et al., 2025). This integration aligns with stakeholder and resource-dependence theories, recognising firms as socio-economic entities embedded in broader ecosystems.

3. Methodology

This study employs a systematic review approach, synthesising findings from both empirical and theoretical research conducted between 2001 and 2025. A total of 432 papers were initially identified through keyword and citation-based searches, and 419 relevant studies were retained after relevance scoring. The review prioritises research addressing the triad of governance dimensions—board composition, executive compensation, and shareholder rights—while incorporating sustainability and contextual variables as moderators.

The inclusion criteria emphasised:

1. Peer-reviewed empirical and conceptual studies.
2. Explicit analysis of governance mechanisms and firm value metrics.
3. Coverage of diverse institutional contexts.

An analytical emphasis was placed on comparative synthesis, enabling a balanced understanding of both convergent and divergent findings. Key variables included board independence, CEO duality, performance-linked pay, and shareholder activism, while firm value was primarily measured through Tobin's Q, ROA, and market capitalisation.

4. Results and Discussion

4.1. Board Composition

Approximately 60% of reviewed studies report a positive correlation between board independence and firm performance (Vetrivel et al., 2024; Petrova, 2023). Gender diversity and expertise also show favourable impacts, particularly in well-regulated environments (Salem et al., 2019). However, emerging-market studies reveal contextual complexity: board independence may not always yield value when ownership concentration undermines oversight (Black et al., 2012).

A critical observation is the moderating role of sustainability practices and audit committees. Firms that integrate ESG oversight at the board level often exhibit stronger governance–value linkages, reinforcing the importance of multidimensional board evaluation (Beaufort et al., 2025).

4.2. Executive Compensation

Twenty major studies affirm that performance-linked executive compensation enhances firm value (Aperte, 2013; Malik & Waheed, 2022). Compensation structures incorporating long-term incentives foster sustainable performance, whereas excessive or short-term pay can erode trust and shareholder alignment (Sivaramakrishnan & Kumar, 2007). The recent integration of ESG-linked compensation demonstrates potential for aligning ethical and financial objectives; however, empirical consensus remains nascent (Utomo et al., 2025).

4.3. Shareholder Rights

Fifteen key studies indicate that shareholder protections—especially transparent voting rights—positively correlate with firm valuation (Li & Zaiats, 2017). However, some evidence suggests that shareholder rights yield diminishing returns when board oversight is already strong, highlighting potential redundancy or saturation effects (Uyar et al., 2025). Emerging markets exhibit volatility in this regard, with legal enforcement and disclosure practices significantly mediating outcomes (Black et al., 2020).

4.4. Contextual and Regulatory Variations

Cross-country analyses reveal substantial differences in governance efficacy. Developed economies—characterised by strong disclosure requirements and regulatory consistency—exhibit robust governance–value relationships (Monda & Giorgino, 2013). Conversely, in developing economies, weak enforcement, political risk, and cultural norms can dilute the benefits of governance (Simiyu, 2024; Black et al., 2012). This heterogeneity highlights the need for adaptive governance frameworks.

4.5. Interplay of Governance Mechanisms

Governance mechanisms rarely operate in isolation. The interplay among board monitoring, executive pay, and shareholder rights produces synergistic or antagonistic effects depending on contextual alignment (Vetrivel et al., 2024; Al-Shaer et al., 2023). For instance, independent boards enhance the effectiveness of performance-based compensation, while excessive shareholder activism may disrupt managerial autonomy. These dynamics illustrate the need for balanced, integrated governance models rather than prescriptive uniformity.

5. Theoretical and Practical Implications

5.1. Theoretical Implications

The findings reaffirm agency theory as the dominant lens through which governance influences firm value (Sivaramakrishnan & Kumar, 2007). However, stakeholder and resource-dependence theories increasingly complement this view by incorporating non-financial drivers such as sustainability and social capital (Uyar et al., 2025; Quttainah et al., 2025). The literature also emphasises the endogenous nature of governance structures, as boards and compensation systems evolve dynamically in response to firm strategies and market pressures (Hermalin & Weisbach, 2001; Al-Shaer et al., 2023).

5.2. Practical Implications

For policymakers, flexible governance codes tailored to local contexts are essential (Chai-Aun et al., 2016). Regulators should prioritise disclosure, diversity, and ESG-linked reporting to enhance transparency. Firms, in turn, should design compensation systems that integrate financial and ethical incentives to foster sustainable, long-term growth. Investors are encouraged to move beyond aggregate governance ratings, emphasising granular, context-sensitive evaluations (Gupta et al., 2009; Gherghina et al., 2014).

5.3. Limitations and Future Research

Despite significant advancements, several limitations persist. Geographic bias remains prominent, with most studies concentrated in specific markets (Black et al., 2020; Salem et al., 2019). Methodological constraints—particularly endogeneity and limited longitudinal data—impede causal inference (Song & Lei, 2008). Moreover, sustainability and ESG integration, though growing, remain inconsistent across datasets (Yondrichs et al., 2021; Sari et al., 2025). Future research should prioritise longitudinal and mixed-method approaches, integrating qualitative insights into board dynamics and compensation negotiations (Morrison et al., 2024). Expanding cross-country comparisons and disaggregating governance indices could refine the understanding of mechanism-specific impacts. Moreover, emerging research should explore the intersection of AI, data analytics, and governance transparency—an area poised to redefine board accountability.

6. Implications and Conclusion

This review consolidates extensive empirical evidence to reaffirm that effective corporate governance—rooted in balanced board structures, performance-aligned compensation, and empowered shareholder rights—enhances firm value. However, governance effectiveness is contingent upon contextual, institutional, and sustainability factors. While developed markets exhibit consistent governance–value linkages, emerging markets reveal nuanced dynamics influenced by regulatory maturity and ownership patterns. Integrating ESG frameworks represents the next frontier in governance research, bridging ethical imperatives with financial outcomes.

The interplay of governance mechanisms underscores that holistic, context-sensitive models outperform isolated reforms. Advancing this field requires methodological pluralism, stronger causal analyses, and greater emphasis on integrating sustainability. Ultimately, effective corporate governance remains both a strategic necessity and a moral imperative for ensuring long-term value creation in the global economy.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

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