A REVIEW OF CORPORATE GOVERNANCE EFFECTIVENESS: DEVELOPED VS EMERGING MARKETS

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Abstract

In recent years, a thriving academic debate evaluating the trend of convergence in corporate governance regulations around the world (Samanta, 2020) has taken place. Academics and practitioners question the transplantation of corporate governance regulatory environment, typically from the developed world to emerging countries, without much consideration for local economic and business environment and culture. Based on a review of empirical studies published in high-quality journals from 2001 to 2021, we synthesize evidence related to the effectiveness of corporate governance mechanisms in developed markets compared to emerging markets. We focus on benefits accruing from these mechanisms in reducing agency costs of firms in terms of improved accounting performance, market valuation, and financial reporting quality of firms. We find that only a few governance mechanisms, for example, board diversity, family management, and equity-based compensation for top management are effective in reducing agency conflicts and promoting good governance. Other governance-improving tools seem to vary in terms of the degree of effectiveness in developed and emerging markets. The analysis suggests that cultural, political, economic, and legal features of an economy should be considered carefully by policy makers and regulators while adapting corporate governance regulations from developed economies in emerging markets.

Keywords: Corporate Governance, Emerging Markets, Regulatory Transplant, Corporate Performance, Earnings Management

Authors' individual contribution: Conceptualization — O.H.; Methodology — O.H. and M.Z.; Investigation — O.H. and M.Z.; Writing — Original Draft — O.H. and M.Z.; Writing — Review & Editing — O.H. and M.Z.

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1. INTRODUCTION

We extend the work of Claessens and Yurtoglu (2013) for a review of studies evaluating the role of corporate governance mechanisms in emerging markets. As highlighted in this work, corporate governance issues in emerging markets tend to differ from those in developed countries because of differences in financial, institutional, and ownership structures, thereby questioning the theoretical basis of agency theory as applied in developed economies. Other studies have also pointed to country and firm-level contrasts as a potential warning against a global convergence of Anglo-Saxon best corporate practices. Nevertheless, countries have been seen to adopt these practices and empirical research has provided evidence of a positive effect on firm performance worldwide (Krafft et al., 2014). While the debate for corporate governance convergence continues and the need for developing a framework that takes into account country and firm-level differences have been recognized, this paper's contribution consists of providing an insight into which governance practices are effective or ineffective for higher firm performance and lower earnings management in emerging markets and how different or similar these results are from the ones observed for the developed world. Thus, we aim to

add to the discussion of practical implications for the convergence or divergence of corporate governance mechanisms worldwide.

Corporate governance has been defined in a variety of ways in academic literature. According to Schleifer and Vishny (1997), "corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment" (p. 737). Larcker et al. (2007) define corporate governance as "the set of mechanisms that influence the decisions made by managers when there is separation of ownership and control" (p. 964). These mechanisms help reduce agency costs and improve decision-making within organizations. We restrict discussion of the effectiveness of these mechanisms in improving corporate performance, market perception of the value of the business, and financial reporting quality. In order to provide a comparison of corporate mechanisms between emerging and developed countries, we focus mainly on internal governance mechanisms, as external mechanisms are bound to have greater conflicting results due to inherent differences across nations. However, block holder ownership and institutional ownership have been included due to their relevance in the ownership concentration category. We structure our discussion in a way that each section is dedicated to a distinct corporate governance mechanism, ranging from demographic and structural board diversity, the role of internal and external auditors, including ownership concentration along with equity-based CEO compensation. Therein we report literature describing the impact of that mechanism on corporate performance (primarily, return on assets and return on equity), market valuation (Tobin's q, stock-price), and financial reporting quality (or earnings quality) in the context of developed and emerging economies. We choose representative, highly cited pieces of work that establish the effectiveness of that particular feature of corporate governance. We then compare and contrast that empirical evidence with what researchers have suggested in all academic papers in the context of emerging and developed economies. The purpose here is to study this literature spanning the last 20 years so as to ascertain whether the conclusions drawn from the effectiveness of these measures are indeed conducive to the "one-size-fits-all" philosophy of proponents of convergence or "global good governance norms" in corporate governance regulations.

Having analyzed in detail the reported findings, we conclude that "one-size-fits-all" may not apply to governance mechanisms and therefore, adopting prescribed rules without catering to localized realities can actually turn out to be detrimental for firms, especially with respect to financial reporting. Nevertheless, it is not to say that certain features cannot be conducive to the overall betterment of corporations. Four governance mechanisms have emerged as potential universal tools for higher firm performance; board gender diversity, ethnic diversity (with due consideration to the threshold level necessary for positive effect), family ownership, (the given firm is headed by family-founder CEO), and equity-based CEO compensation. However, the inherently higher earnings management tendencies found in emerging economies make it difficult to implement all governance policies adopted by the Western world and therefore, they must proceed with caution here. The conclusions drawn here can also help in policy formulation for emerging markets as it provides an insight into how effective a certain measure has been so far and to what extend it can be applied in their context.

The rest of the paper is structured as follows. Section 2 briefly discusses the literature on the debate on corporate governance implementation. Section 3 presents the research question and details the review methodology. Section 4 provides the results and Section 5 discusses the salient findings of this study while Section 6 concludes the paper.

2. LITERATURE REVIEW

Agency theory posits that shareholdings by managers can help reduce agency costs since it can align managers' incentives with the interests of shareholders (Jensen & Meckling, 1976). However, in an economy where ownership is generally concentrated in a few hands, controlling shareholders influence the directions and decisions of the firm which are favorable to them at the cost of minority shareholders (Morck et al., 1988; La Porta et al., 2000). These agency problems can be amplified in emerging economies where shareholdings are much less dispersed compared to the US or other western countries and ownership is typically concentrated in a few hands (La Porta et al., 1998; Aguilera & Crespi-Cladera, 2016). In a widely cited work, Young et al. (2008) argue that because of differing ownership structures, the prevalence of family ownership, weak legal structures, and other factors, corporations in emerging economies require governance mechanisms that are different from those used in economies with traditional principal-agent problems. Although there are differences among corporate governance regimes in the developed world, they have been on the path of convergence to the shareholder model from the Anglo-Saxon and agency theory premise (Goergen et al., 2005; Hill, 2005; Samanta, 2020). This became especially crucial with the increased drive towards globalization and thus, we saw an attempt to adopt established models of governance seen in Western countries in order to develop corporate governance "convergence" worldwide (Aguilera & Crespi-Cladera, 2016). Gindis et al. (2020) attribute this behavior of convergence to certain essential requirements like the insistence of stock exchanges for the adoption of international level of board independence, audit procedures, information disclosure, and other Anglo-American modes of best corporate practices for listing. However, the authors also contend that a perfect "homogeneity" in such policies across the world is not a possibility, even more so in the post-COVID-19 era where national deviations have gained prominence.

Emerging economies have adopted and adapted regulatory provisions of evolving codes of corporate governance from the developed world, often with little consideration for local institutional, political, and cultural concerns (Aguilera & Haxhi, 2019). For example, the Organisation for Economic Co-operation and Development (OECD) Principles of

Corporate Governance, enacted in 1999 by 30 OECD countries, have been widely practiced around the universe (Jesover & Kirkpatrick, 2005; Chen et al., 2011). In an attempt to understand the effect on the performance of this widespread adoption around the world, Krafft et al. (2014) conducted an empirical investigation on a large non-US data and showed a positive outlook. However, a mixed result of Anglo-American corporate governance adoption was perceived by 24 practitioners from Cameroon, Kenya, and Pakistan with respect to firm performance, ranging from positive to negative to insignificant (Areneke et al., 2019). The national and firm level characteristics as a contingency factor in the evaluation of corporate governance measures — as depicted by the financial crisis plaguing economies over the years and now in the COVID-19 situation — have borne home the stark reality of their importance in been configured into the picture before any policy or regulation is implemented. Thus, while the concept of "one size fits all" has been refuted, the focus has shifted toward formulating practices that would fall under the "global good governance norm" (Ponomareva et al., 2021). Therefore, we aim to consolidate relevant data to ascertain which mechanisms are effective enough to be applied globally.

3. RESEARCH METHODOLOGY

Given the ongoing convergence debate, we gather data to answer the research questions:

RQ1: How effective/ineffective a corporate governance mechanism, as propagated by agency theory and implemented in developed nations, is for the emerging economies as well as for the developed sector?

RQ2: Is unanimous implementation a possibility or not?

Thus, we evaluate empirical evidence presented in extant literature regarding the effectiveness of a few constructs of corporate governance (board composition and structure, audit committee role, external and internal auditor role, ownership concentration, and CEO equity ownership) in emerging and developed countries on firm performance, valuation, and earnings management practices as an attempt to highlight success and failure stories for them. Our definition of emerging and developed markets is the same as that used for developing MSCI Emerging Markets Index. For performance and market response indicators, we primarily select those studies that have been conducted on accounting and market performance indicators — ROE, ROA, and Tobin's q — although, ROS and MTB have also been used among others and share/stock price and volatility outcomes. For earnings management, while accruals are the main variables, papers on other indicators like fraud incidence, audit quality, and earnings quality have been included as well.

In order to facilitate comparability, we focus on extant literature published mainly in quality journals (ABDC A or A* ranked journals) covering journals for corporate governance, research, business, auditing, accounting, economic, finance, banking, administrative, management, legal and ethical, for over last 20 years. A few worthy B-grade journals, *Management Decisions*, *Studies in Economics and Finance*, *Corporate Ownership and Control*, and *Journal of Economics and Finance*, have also been added due to a limited high-quality journal availability for emerging economies. Of the 157 mechanism-specific articles, A and A* constitute 150 while the B-grade journals are 7. The two-decade-long span allows us to gather a substantial amount of work and includes the period after the enactment of both the Sarbanes-Oxley Act of 2002 as well as OECD Principles of Corporate Governance of 1999. While most studies selected center around single or multiple mechanisms, the paper selection is not restricted to them but also includes studies for corporate mechanisms indices and we retrieve the relevant relation from them. We also extract results for mechanisms that appear as control variables.

4. RESULTS

4.1. Boards

As an internal governance control mechanism, boards play a highly crucial role in not only monitoring firm management actions and mitigating the traditional principal-agent problem witnessed in developed economies, but also the principal-principal problem characteristic of emerging economies. Given the fundamental institutional, economic, and ownership differences across countries, the efficacy of boards as a governance tool is subject to these intricacies and, therefore, demands to be investigated in their context. While boards have been propagated as a primary governance mechanism for monitoring and controlling managers (Fama & Jensen, 1983) — where this need arose from the conflict between dispersed shareholders and manager's self-interests — the fact that the nature of this conflict changes in emerging economies also brings into question the validity of using the same method. With the presence of controlling rather than dispersed shareholders, who are also likely to be a part of management due to ownership structure, the threat of minority shareholder expropriation emerges. Young et al. (2008) posit that with the possibility of controlling shareholders deciding the board of directors, the effectiveness of this internal control mechanism is challenged. Furthermore, the absence of external legal support, a characteristic of emerging economies, also acts as a deterrent to establishing accountability. Nevertheless, boards are an integral part of organizations, build on the corporate governance premise, and adopted worldwide. Claessens and Yurtoglu (2013) provide a review of studies that corroborates the positive impact of board composition on the market valuation of emerging economies. Thus, in this section, acknowledging the inherent differences across countries, we aim to provide an empirical review of the effectiveness of boards by looking into their structure and composition for both developed as well as emerging countries with respect to firm performance, valuation, and earnings management so as to add to the debate of whether the convergence to the Anglo-Saxon model of corporate governance has any economic implications.

Demographic board diversity has a positive and significant effect on the sustainable performance of firms — a conclusion drawn for most countries around the world (Naciti, 2019). Age, education, ethnicity, and gender are demographic board diversity elements that are considered significant in examining the impact of board monitoring on firm outcomes.

4.1.1. Board gender diversity

With the advent of global modernization, the gender feature of demographic diversity has received a fairly high level of attention. Countries worldwide have corporate reforms enacted to ensure female board participation. While the practical impact of such an action on corporate performance, in the governance framework is still surrounded by ambiguity, the surge towards mandatory female board appointments, quotas, and voluntary adoption of such practices in both developed and developing markets does imply a universally favorable outcome of gender diversity impact on firm performance. However, two angles for the adoption of this strategy have been pointed out, the image of equity and an actual economic impact. Although, studies over the years have provided empirical results for the relationship between gender board diversity and firm performance, this paper reviews articles for both types of countries and highlights the significance of this mechanism for emerging countries, if any, amidst its widespread adoption and propagation by the developed world.

According to agency theory, women's presence on boards can bring about better company performance (Duppati et al., 2020). Board diversity could lead to a more independent board thereby allowing greater monitoring and control over managers and reducing agency costs as well as increasing firm performance, although caution against a direct link of diversity with performance has been pointed out (Carter et al., 2003). Post and Byron (2015) found that gender diversity has a positive impact on the accounting performance of companies, although this result was seen to be weak in countries where shareholder protection is weak. This challenges the role of boards as a monitoring mechanism and brings it to the forefront the importance of external governance mechanisms in the form of institutional elements for corporate practices, at least in low investor protection environments. It is expected that this situation would be further exacerbated when concentrated ownership leading to greater divergence between controlling and cash-flow rights disrupts the effectiveness of the internal governance mechanism as well. Under these considerations, it would appear that gender diversity of boards as a governance mechanism is doubtful for some countries, especially emerging ones, and therefore, is unlikely to show any significant association with overall firm performance or earnings management. However, interestingly enough as Table 1 shows most individual studies included in this research for emerging markets like Middle Eastern countries, Mauritius, China, India, Malaysia, and Vietnam, in order to ascertain the extend of the role that female board representation has on firm performance indicators, makes a case more for a positive rather than a negative or even an insignificant effect respectively (Salloum et al., 2019; Mahadeo et al., 2012; Liu et al., 2014; Duppati et al., 2020; Abdullah et al., 2016; Nguyen et al., 2015)[1].

The question, however, that needs to be answered is whether this result is similar to the ones for the developed countries or not. Singapore, most Western European countries (greater female representation on boards than the US and the UK), France, South Africa, and Germany do indeed portray a positive female influence, especially participation in different board committees that are geared towards the monitoring dimension of corporations, with firm performance (Duppati et al., 2020; Green & Homroy, 2018; Bennouri et al., 2018; Gyapong et al., 2016; Joecks et al., 2013)[2]. However, Carter et al. (2010) show an insignificant relation between gender and firm performance in the US, and Adam and Ferreira (2009) also use a US firm sample to present the view that female representation in boards of well-governed firms can actually lead to lower firm performance due to over monitoring. Thus, one can argue that female board representation for firms in developed countries also depicts a positive image and the negative or insignificant effects emerging at times could somewhat be explained by the fact that already well-governed firms do not need this particular control mechanism.

Hence, as far as the gender diversity component of governance mechanism with respect to firm performance is concerned, both developed and emerging countries have similar patterns despite certain legal and ownership structure disparities within developed as well as across emerging economies. For example, diversity in ownership and minority protection laws in developed and emerging markets surprisingly do not attenuate the influence of gender diversity in the boards on firm performance.

Table 1. Impact of board gender diversity on higher firm performance in developed and emerging economies

Effective	*Sources*
Emerging countries	Duppati et al. (2020), Salloum et al. (2019), Abdullah et al. (2016), Nguyen et al. (2015), Liu et al. (2014), Mahadeo et al. (2012)
Developed countries	Duppati et al. (2020), Green and Homroy (2018), Bennouri et al. (2018), Gyapong et al. (2016), Joecks et al. (2013)
Not effective	***Sources***
Emerging countries	Abdullah et al. (2016)
Developed countries	Carter et al. (2010), Adam and Ferreira (2009)

In the attempt for a comprehensive understanding of the gender diversity of boards for corporate governance, their impact on earnings management is yet another arena that needs to be examined. Agency theory, in the both principal-agent and principal-principal scenarios, predicts that

[1] Abdullah et al. (2016), while providing evidence of a negative impact on Tobin's q for Malaysia, nevertheless showed a positive impact on ROA and Nguyen et al. (2015) presented a threshold of about 20% as optimal, after which the relationship was seen to change.

[2] Bennouri et al. (2018) presented a negative effect for Tobin's q, which however disappeared once it was studied in conjunction with other female director attributes and Gyapong et al. (2016) as well as Joecks et al. (2013) showed a U-shaped relation (only three or more presenting with a positive impact).

the conflict of interest would manifest itself in the form of higher earnings management. Emerging markets have been seen to indulge in higher earnings management (Li et al., 2014). Country- and firm-level differences between emerging economies and developed ones have been pointed out as a potential explanation for such behavior and institutionalized agency theory has been proposed as the best theoretical framework in which to view this phenomenon (Bao & Lewellyn, 2017). Therefore, once more the effectiveness of Anglo-Saxon corporate control practices derived from traditional agency theory is brought under question. While we acknowledge the resounding relevance of institutional factors in grasping the complete efficacy of governance mechanisms, we aim here only to shed light on empirical evidence pertaining to whether gender diversity on boards as a control mechanism is as helpful in emerging economies as it is expected to be for developed countries.

With various cultural factors determining gender equality in countries and the burgeoning gender-diverse board concept for corporate governance, fascinating results emerge. As Table 2 depicts, the impact of gender diversity on earnings management for both developed and emerging economies is in sharp contrast to one another[3]. Thus, the better monitoring benefit that female representation on boards was expected to generate according to agency theory doctrines and which has been observed for developed countries, does not seem to appear in relation to mitigating earnings manipulation for emerging economies and therefore, gives credence to arguments advocating the need to formulate governance policies for less developed countries based on factors other than just agency conflict, at least where female participation effect for earnings management is concerned.

Table 2. Impact of board gender diversity impact on curtailing earnings management in developed and emerging economies

Effective	*Sources*
Emerging countries	
Developed countries	García Lara et al. (2017), Kyaw et al. (2015), Srinidhi et al. (2011)
Not effective	***Sources***
Emerging countries	Arioglu (2020), Waweru and Prot (2018)
Developed countries	

4.1.2. Ethnic diversity

As mentioned above, board diversity is a means of ensuring board independence which in itself is essential to corporate success. Ethnic diversity is another way to ensure that no one group of people has control over all decisions and that minority voices are not suppressed. Furthermore, the growing globalization increases the ethnic element relevance in firms. However, from the scant literature that is available on ethnic minorities (nine Middle Eastern countries and Malaysia) for emerging economies (Salloum et al., 2019; Gul et al., 2016) and South Africa (Gyapong et al., 2016) in the developed section, one can deduce that there has to be a minimum threshold level to be followed for effective results (inverted U shape) — positive relationship disappears once the number of ethnic minority director starts to increase. The US, however, gave an insignificant relation with firm performance (Guest, 2019; Carter et al., 2010).

Table 3. Impact of board ethnic diversity on higher firm performance in developed and emerging economies

Effective	*Sources*
Emerging countries	Salloum et al. (2019), Gul et al. (2016)
Developed countries	Gyapong et al. (2016)
Not effective	***Sources***
Emerging countries	Salloum et al. (2019), Gul et al. (2016)
Developed countries	Guest (2019), Gyapong et al. (2016), Carter et al. (2010)

In light of the evidence one can conclude that while board diversity as a monitoring and controlling mechanism is an essential tool for corporate governance, the gender diversity component has greater relevance than ethnic minorities for firm performance. Therefore, corporate governance guidelines propagating adequate female board representation are on the right track and this policy can be unanimously applied for both emerging and developed nations, despite country and firm level differences, as far as better firm performance is concerned. However, its non-effectiveness in curbing earnings management for emerging economies is disturbing and therefore, a cost/benefit analysis of such a policy is necessary before widespread implementation.

4.1.3. Independent and outside directors

The independence of directors is crucial in ensuring adequate protection of minority shareholder rights (Fama & Jensen, 1983). Thus, their presence can help monitor company directors more effectively and lessen agency costs (Naciti, 2019). Given such reasoning, general perception would point towards positive associations of independence of directors or proportion of outside directors with firm performance. However, studies conducted on various regions of the world in an attempt to grasp the effectiveness of an independent board of directors have brought to the forefront some conflicting conclusions. While the argument that inherent institutional, political, and economic differences across emerging and developed nations are bound to lead to different mechanism outcomes, the varying empirical results within either the developed or emerging countries (see Table 4) point to an even more complex scenario.

Some studies pointed towards a positive association for developing countries like Taiwan, Korea, Malaysia, Thailand, South Korea, Indonesia, and Chile (Chou et al., 2013; Black et al., 2012; Ramadani & van Whitteloostujin, 2010; Lefort & Urzúa, 2008), others have reported either an insignificant result for India, China, Malaysia, Thailand, South Korea, and Indonesia (Black et al., 2012; Hu et al., 2010; Ramadani &

[3] García Lara et al. (2017) show that this relationship does not exist if the firms under investigation are not gender biased towards director appointments. Arioglu (2020) presented an insignificant effect while Debnath et al. (2019) a higher female tendency for income-decreasing earnings management.

van Whitteloostujin, 2010)[4] or a negative effect in the case of Brazil (Black et al., 2012). Furthermore, a negative relation between stock return volatility and share price fluctuation (pointing to a beneficial effect) was observed for Taiwan (Huang et al., 2011a). Thus, while we do see the mixed result there seems to be greater support for independent directors on performance for emerging countries. For the developed countries, Hong Kong and most European countries, including the UK, show a significant and positive impact (Leung et al., 2014[5]; Krivogorsky, 2006; Weir et al., 2002). However, board independence itself was seen to be significantly negative for Canada (Erickson et al., 2005) and independent directors as insignificant for the US with respect to the sustainable economic performance of companies (Hussain et al., 2018).

Thus, while in theory, the presence of independent directors seems to support a better monitored and governed firm, the economic implications of such boards in the form of better firm performance while inclining towards a positive outlook for emerging economies, is not completely established, especially for the developed world and therefore, brings to the forefront the necessity to ensure adequate incorporation of other firm and country-level factors before arriving at any conclusion and formulating best corporate practices.

Table 4. Impact of independent board directors on higher firm performance in developed and emerging economies

Effective	*Sources*
Emerging countries	Chou et al. (2013), Black et al. (2012), Huang et al. (2011a), Ramadani and van Whitteloostujin (2010), Lefort and Urzúa (2008)
Developed countries	Leung et al. (2014), Krivogorsky (2006), Weir et al. (2002)
Not effective	***Sources***
Emerging countries	Black et al. (2012), Hu et al. (2010), Ramadani and van Whitteloostujin (2010)
Developed countries	Hussain et al. (2018), Leung et al. (2014), Erickson et al. (2005)

Linked with the concept of independent boards is the outside director's contribution to firm performance. The beneficial monitoring effect of outside independent directors, in medium independent boards, as advocated by the Anglo-American mode of corporate practices based on the premise of agency theory, does seem to hold merit, at least for Bangladeshi firms (Rashid, 2015). A significantly positive effect on performance indicators was witnessed in China (weak property rights protection and listed firms), India, Egypt, Korea, Chile, and Tunisia (Chen, 2015; Jackling & Johl, 2009; Omran, 2009; Lefort & Urzúa, 2008; Choi et al., 2007; Black et al., 2006; Khanchel El Mehdi, 2007). The positive market reaction to independent and outside directors, as depicted by an increase in share price, was also seen in India's adoption of Clause 49 which mandated a minimum number of independent directors (Black & Khanna, 2007), and the 1999 Korean Law requiring 50% outside directors on board (Black & Kim, 2012) for large firms. Despite this overwhelming evidence in favor of outside directors, an insignificant effect was also reported for China and Malaysia (Hu et al., 2010; Haniffa & Hudaib, 2006; Peng, 2004). The insignificance of the Chinese case was further validated by the market reaction of initial public offering (IPO) firms where outside directors turned out to be insignificant for both initial returns and long-term performance (Li & Naughton, 2007). Thus, once more we find varied empirical results for outside directors as a controlling mechanism. However, with larger evidence in favor of a positive effect (Table 5), we can say that outside directors might have an important role to play in better governance leading to enhanced firm performance for emerging economies.

The case for the developed world, however, turned out to be somewhat different. While a positive impact of outside directors in Canada (for ones employed in financial institutions) and the US (for diversified and high debt firms) was seen (Coles et al., 2008; Erickson et al., 2005), other studies on UK and Australia present a negative relation (Guest, 2009; Kiel & Nicholson, 2003[6]). In addition, an insignificant effect has also been reported for the UK, Hong Kong, Canada, the US, Germany, Belgium, Spain, France, Holland, Italy, and Switzerland in some papers (Veprauskaitė & Adams, 2013; De Andres et al., 2005; Beiner et al., 2004). The market reaction (cumulative abnormal stock returns) for appointment announcements of outside directors with strong monitoring qualities and incentives in the face of high agency problems for the UK and a higher percentage of non-executive directors for Italy show positive and insignificant results respectively (Lin et al., 2003; Rossi & Cebula, 2015). Andreou et al. (2016) predict a negligible effect of the percentage of outside directors on boards as one of the components of board structure on future stock price crashes.

While the case for independent directors, as portraying the independence level of boards, on firm performance is a bit ambiguous for all countries, the role of outside directors has come out as more effective in representing the independence element necessary for monitoring and leads to better performance for emerging markets. However, this effect does not hold for developed ones. Therefore, the inclusion of outside directors in the code for best corporate practices seems to be a viable policy that can be successfully implemented, at least in emerging economies but not worldwide.

Table 5. Impact of outside board directors on higher firm performance in developed and emerging economies

Effective	*Sources*
Emerging countries	Chen (2015), Black and Kim (2012), Jackling and Johl (2009), Omran (2009), Lefort and Urzúa (2008), Black and Khanna (2007), Choi et al. (2007), Khanchel El Mehdi (2007), Black et al. (2006)
Developed countries	Coles et al. (2008), Erickson et al. (2005), Lin et al. (2003)
Not effective	***Sources***
Emerging countries	Hu et al. (2010), Li and Naughton (2007), Haniffa and Hudaib (2006), Peng (2004)
Developed countries	Rossi and Cebula (2015), Andreou et al. (2016), Veprauskaitė and Adams (2013), Guest (2009), Li et al. (2006), De Andres et al. (2005), Beiner et al. (2004), Kiel and Nicholson (2003)

[4] Only average-performing firms show a positive effect (Ramadani & van Whitteloostujin, 2010).
[5] Although a significant positive effect on performance was seen for non-family firms, this relationship turns insignificant in case of family firms (Leung et al., 2014).
[6] A negative effect was seen for Tobin's q which becomes insignificant for ROA.

The independence of boards with respect to earnings management also reveals noteworthy results. Once more we find no clear impact and although outside directors on boards might have a beneficial impact, the evidence is far from conclusive. Studies on Latin American economies (Brazil, Argentina, Chile, and Mexico) for external director independence, Taiwan for independent supervisors as well as financially expert independent directors, and China for supervisors with accounting and academic backgrounds show a positive effect on earnings management (Gonzalez & Garcia-Meca, 2014; Ran et al., 2015; Chen et al., 2007)[7] and a lesser fraud probability with outside directors on Chinese boards (Chen et al., 2006). Insignificant results for India and Malaysia on the other hand have also been recorded (Sarkar et al., 2008; Haniffa & Hudaib, 2006). The outcomes for East Africa (Kenya and Tanzania) and 24 other emerging economies, brought forward the inability of independent boards and outside directors to curb earnings management (Waweru & Prot, 2018; Bao & Lewellyn, 2017). In contrast, the developed countries with their strong legal and institutional conditions supporting corporate governance mechanisms mostly report a positive effect of an independent board of directors and earnings management (Jaggi et al., 2009; Xie et al., 2003). For the UK a lower-income increasing earnings management disposition was seen (Peasnell et al., 2005) which was also true for the US even for restatements, particularly when these directors have corporate experience (Agarwal & Chadha, 2005; Xie et al., 2003) or belong to a financial intermediary as in the case of Canada (Park & Shin, 2004). However, Park and Shin (2004) also postulate that outside directors "as a whole" are not significant in earnings management as García Osma and Gill-de-Albornoz Noguer (2007) for Spain.

Therefore, as can be seen from the higher number of studies providing evidence of ineffectiveness for emerging economies and more studies advocating effectiveness for developed economies presented in Table 6, board independence, as a corporate governance mechanism curbing earnings management, works well in strict rules and regulations environment of the developed economy, but is not the best controlling mechanism in emerging areas where their effectiveness is more contingent on education and expertise level rather than independence.

Table 6. Impact of independent/outside board directors on curtailing earnings management in developed and emerging economies

Effective	***Sources***
Emerging countries	Gonzalez and Garcia-Meca (2014), Ran et al. (2015), Chen et al. (2007), Chen et al. (2006)
Developed countries	Jaggi et al. (2009), Peasnell et al. (2005), Agarwal and Chadha (2005), Park and Shin (2004), Xie et al. (2003)
Not effective	***Sources***
Emerging countries	Waweru and Prot (2018), Bao and Lewellyn (2017), Ran et al. (2015), Sarkar et al. (2008), Chen et al. (2007), Haniffa and Hudaib (2006)
Developed countries	García Osma and Gill-de-Albornoz Noguer (2007), Park and Shin (2004)

The vast mixed empirical evidence of independent and outside directors for firm performance and earnings management shows that this part of board composition and any policies and strategies related to it must be studied in conjunction with firm and country-level differences. While agency theory provides a sound basis for incorporating an independent board as the best means of monitoring company executives, the fact that cultural and institutional factors should also be looked into is an indication that this specific mechanism cannot be generalized. Various nuances related to actual independence factors as well as expertise and outside link are important considerations that can help define the role that independent outside directors have for their respective firms and countries. Furthermore, the different outcomes for performance and earnings management warrant careful implementation, especially for emerging economies.

4.1.4. Board size

Turning to the board size characteristic of board structure, multifarious studies have extensively diagnosed the small and large board size implications for monitoring purposes. Although agency theory recognizes the potential benefit of monitoring with more directors on board, they have also established a limit of eight directors as sufficient for this purpose (Jensen, 1993). While small boards have the advantage of keeping board directors in check, they lose on the diversification benefits that large boards engender. Research has brought forward contrasting results between developed and emerging economies.

Empirical evidence for emerging economies suggests that for better firm performance larger boards contain greater merit than small boards (Table 7); thereby suggesting that despite the benefit that small boards bring in, it is not enough to ensure higher performance. Other factors like environment and culture might dictate the needs of the corporate firms here. Positive results have been reported for large board sizes in studies conducted in China, India, Tunisia, and Malaysia (Chen, 2015; Jackling & Johl, 2009; Khanchel El Mehdi, 2007; Haniffa & Huadaib, 2006)[8]. However, the insignificance for China (Li & Naughton, 2007)[9] as well as the negative impact on Malaysia has also been documented (Haniffa & Huadaib, 2006; Mak & Kusnadi, 2005). On the other hand, we see mixed results for developed countries with a greater incidence of ineffectiveness as compared to effectiveness (Table 7). We saw a positive large board size impact on firm performance in Australia (Kiel & Nicholson, 2003) and the US (Coles et al., 2008) for firms with higher advising needs. A positive stock market reaction for Italy and a lower future stock price crash risk for the US have been shown (Rossi & Cebula, 2015; Andreou et al., 2016). However, other studies mainly reported a negative argument for the UK, the US, Germany, Belgium, Spain, France, Holland, Italy, Switzerland, Canada, and Singapore, not just for performance indicators but for share

[7] Supervisors (in accordance with the two-tier board system of China that plays the monitoring part) show an insignificant impact on earnings management (Ran et al., 2015). The result for independent directors was also insignificant in Taiwan paper (Chen et al., 2007).

[8] Results were positive for ROA and negative for Tobin's q (Haniffa & Huadaib, 2006).

[9] However, market reaction on the IPO firm's initial returns was positive (Li & Naughton, 2007).

returns and future stock price crash as well (Guest, 2009; Larcker et al., 2007; De Andres et al., 2005; Erickson et al., 2005; Mak & Kusnadi, 2005). However, another study on the UK and Switzerland reported an insignificant effect (Veprauskaitė & Adams, 2013; Beiner et al., 2004).

Table 7. Impact of board size on higher firm performance in developed and emerging economies

Effective	*Sources*
Emerging countries	Chen (2015), Jackling and Johl (2009), Khanchel El Mehdi (2007), Li and Naughton (2007), Haniffa and Huadaib (2006)
Developed countries	Rossi and Cebula (2015), Coles et al. (2008), Kiel and Nicholson (2003), Andreou et al. (2016)
Not effective	***Sources***
Emerging countries	Li and Naughton (2007), Haniffa and Huadaib (2006), Mak and Kusdani (2005)
Developed countries	Veprauskaitė and Adams (2013), Guest (2009), Larcker et al. (2007), Mak and Kusdani (2005), Erickson et al. (2005), De Andres et al. (2005), Beiner et al. (2004)

However, larger board sizes have been linked with greater earnings management for emerging economies like Malaysia (Haniffa & Huadaib, 2006) and Latin America (Gonzalez & Gracia- Meca, 2014). China, on the other hand, shows no signs of board size with chances of fraud (Chen et al., 2006). In contrast, the developed nations seem to find large boards as a deterrent for earnings manipulation, as was evident from the US (Xie et al., 2003) and the UK (Peasanell et al., 2005) studies. Table 8 makes it clear that where earnings management is concerned, large board size seems to help developed economies but not emerging countries.

Table 8. Impact of board size on curtailing earnings management in developed and emerging economies

Effective	*Sources*
Emerging countries	
Developed countries	Peasnell et al. (2005), Xie et al. (2003)
Not effective	***Sources***
Emerging countries	Gonzalez and Gracia-Meca (2014), Chen et al. (2006), Haniffa and Huadaib (2006)
Developed countries	

This research has made it clear that board size as a governance mechanism is not subject to the concepts of agency theory and any generalization of this tool across countries would not lead to optimal results. On one hand, while large boards are conducive to better firm performance in emerging economies, they also tend to aggravate the earnings management problem. In addition, the developed economies show an opposite reaction to both performance and earnings management. Therefore, policymakers must keep in mind various institutional, cultural, environmental as well as firm-level differences before enacting any measures related to board size.

4.1.5. CEO duality

The additional role of the CEO as chairperson is yet another debatable topic for board structure in corporations. Since one of the aims of corporate governance is to mitigate agency problems inherent in corporations worldwide, proponents of agency theory would stipulate arguments against the appointment of the CEO as the chairman. CEO duality leads to control of power in one hand which can allow easy firm information manipulation therefore, a separation of two roles would allow better management, reduced agency problems, and higher firm performance (Fama & Jensen, 1983; Naciti, 2019). However, arguments in its favor are also present. The internal firm synergy that can be achieved with the efficiency of the dual role cannot be negated. Furthermore, specific firm situations and characteristics also play an essential role in the decision for CEO duality.

Given the concentrated ownership structures of emerging markets, power ensuing from CEO-chairman duality would appear to further worsen the situation of expected expropriation and according to agency theory such kind of power has negative connotations for firm performance (Jackling & Johl, 2009). However, empirical evidence from emerging markets does not seem to support such a view. Jackling and Johl (2009) could not find evidence to corroborate the negative impact of CEO duality on performance indicators for India. In fact, positive effects have been reported for Indonesia, Thailand, South Korea, Malaysia (only for mediocre performing firms), and China (Ramadani & van Whitteloostujin, 2010; Peng, 2004). Insignificant results were also seen for Indonesia, Thailand, South Korea, Malaysia, and Egypt for performance (Ramadani & van Whitteloostujin, 2010; Omran, 2009; Haniffa & Hudaib, 2006) and in the case of Taiwan for stock return volatility (Huang et al., 2011a). A detrimental effect has also been noted in the case of Taiwan and Malaysia (Huang et al., 2011b; Haniffa & Hudaib, 2006). Overall results are indicative of no significant threat to company performance where CEO role duality is concerned, casting doubt on the insistence of role separation for better governance in emerging markets.

On the other hand, results for the developed section of the world (the US, the UK, European countries, Hong Kong; Spain, and Australia) seem to follow the agency theory predictions and mostly report an ineffective (negative/insignificant) impact for better performance (including market reaction indicators) when CEO-chairman role is not separated (Andreou et al., 2016; Veprauskaitė & Adams, 2013[10]; Krivogorsky, 2006; Li et al., 2006; Fernández-Rodríguez et al., 2004; Kiel & Nicholson, 2003).

Table 9 demonstrates that CEO duality does not lead to better firm performance in both developed and emerging countries. The above discussion, however, provides further clarification that while its impact has mostly been noted as insignificant for emerging economies; developed countries have also experienced negative results. Therefore, while the West would prefer to keep the CEO-chairman role separated, it is not necessary for emerging economies, considering firm performance.

[10] Veprauskaitė and Adams (2013) results are on high CEO power that incorporates CEO duality as one of its components.

Table 9. Impact of CEO duality on higher firm performance in developed and emerging economies

Effective	*Sources*
Emerging countries	Ramadani and van Whitteloostujin (2010), Peng (2004)
Developed countries	
Not effective	***Sources***
Emerging countries	Huang et al. (2011), Ramadani and van Whitteloostujin (2010), Jackling and Johl (2009), Omran (2009), Haniffa and Hudaib (2006)
Developed countries	Andreou et al. (2016), Veprauskaitė and Adams (2013), Krivogorsky (2006), Li et al. (2006), Fernández-Rodríguez et al. (2004), Kiel and Nicholson (2003)

As far as the association between CEO duality and earnings management goes, except for the case of India where a positive link of CEO duality was seen (Sarkar et al., 2008), both emerging (China, Malaysia, and Latin America) and developed (the US, the UK, and Australia) economies show insignificant impacts (Xie et al., 2003; Peasnell et al., 2005; Davidson et al., 2005; Chen et al., 2006; Haniffa and Hudaib, 2006; Gonzalez & Garcia-Meca, 2014). Bao and Lewellyn (2017), however, provide evidence to the contrary and reported a negative effect for the case of 24 emerging markets. While we do find mixed results for a less developed section of the world, overall CEO duality has not come across as having any significant association with earnings management in developed countries.

Table 10. Impact of CEO duality on curtailing earnings management in developed and emerging economies

Effective	*Sources*
Emerging countries	Bao and Lewellyn (2017)
Developed countries	
Not effective	***Sources***
Emerging countries	Gonzalez and Gracia-Meca (2014), Sarkar et al. (2008), Chen et al. (2006), Haniffa and Hudaib (2006)
Developed countries	Davidson et al. (2005), Peasnell et al. (2005), Xie et al. (2003)

Thus, where performance is concerned CEO duality could lead to lower firm performance in the developed world but greater evidence points to no major relation in emerging markets. They, however, showed some tendency for lower earnings management with CEO duality, albeit insignificant results have also been recorded, while for the developed countries CEO duality was mostly found to be insignificant. Therefore, strict adherence to best corporate practices that promote CEO role separation need not be implemented in emerging markets and the final policy should be based on firm and country characteristics.

4.1.6. Multiple directorships and board meeting frequency

In analyzing board effectiveness, multiple directorships and meeting frequency are also essential elements to be taken into consideration. More outside directorships are indicative of higher director quality (Fama & Jensen, 1983) as they have more experience and therefore, would be better able to monitor. However, this also brings forward the "busyness hypothesis" which puts the benefits obtained from experience into jeopardy. With more time spend on multiple boards, the directors could be less vigilant to manager exploitation and thus, eventually provide lower governance. So one can say that for the issue of multiple directorships on firm performance, both costs and benefit implications exist.

Lee and Lee (2014) show that the sample for six countries including both developed (Hong Kong and Singapore) and emerging countries (Indonesia, Malaysia, Philippines, and Thailand) present a negative effect of outside directors' multiple directorships with firm performance. This ineffective effect (negative/insignificant)[11] was also observed in India and Malaysia (Jackling & Johl, 2009; Haniffa & Hudaib, 2006) while Sarkar and Sarkar (2009) showed a positive correlation but contingent on institutional and type of director factors in India. Therefore, the above discussion implies a general non-effective impact on firm performance that becomes positive when other firm and country-level characteristics create potential advantageous situations for multiple directorships. We also find similar results for the developed countries. While Ferriss et al. (2003) did not find any support for the negative relationship between multiple directorships and firm performance (Larcker et al., 2007) however, reported a negative association.

Thus, as Table 11 shows, overall we see multiple directorships of board directors as not an effective governance measure for both types of countries. Given such varying results, one can deduce that multiple directorships and firm performance are one of those mechanisms that need to be understood in conjunction with other factors.

Table 11. Impact of multiple directorships on higher firm performance in developed and emerging economies

Effective	*Sources*
Emerging countries	Sarkar and Sarkar (2009)
Developed countries	
Not effective	***Sources***
Emerging countries	Lee and Lee (2014), Jackling and Johl (2009), Haniffa and Hudaib (2006)
Developed countries	Lee and Lee (2014), Larcker et al. (2007), Feriss et al. (2003)

Board meeting frequency is yet another way for the directors to keep themselves informed of management actions and therefore, can help in monitoring them more effectively (Adam & Ferreira, 2008), thereby reducing agency costs and having an impact on firm performance (Chou et al., 2013). There are very few studies that establish a direct link between board meeting frequency and firm performance. However, from the little literature available, we find that India and Tunisia as emerging countries gave insignificant results (Jackling & Johl, 2009; Khanchel El Mehdi, 2007). An insignificant effect was also observed for 10 OECD countries — Canada, the UK, the US, Germany, Belgium, Spain, France, Holland, Italy, and Switzerland (De Andres

[11] Malaysia showed an insignificant effect for ROA but negative for Tobin's q.

et al., 2005), which was also reported by Larcker et al. (2007) for the US. Thus, we do not find evidence to corroborate the idea that board meeting frequency can help in mitigating agency costs for either concentrated or widely-held firms (Table 12).

Table 12. Impact of board meeting frequency on higher firm performance in developed and emerging economies

Effective	*Sources*
Emerging countries	
Developed countries	
Not effective	***Sources***
Emerging countries	Jackling and Johl (2009), Khanchel El Mehdi (2007)
Developed countries	De Andres et al. (2005), Larcker et al. (2007)

4.1.7. Audit committee

In the context of internal control mechanisms for corporate governance, audit committees play an essential role. The monitoring and controlling of managers, so excessively advocated by the agency theory, is the vital purpose of audit committees. Their multifarious activities include important processes like financial reporting, auditing, accounting controls, and risk management (Klein, 2002). Given the nature of their work, the independence, and expertise of committee directors hold a strong position in determining performance effects for firms. Sarbanes-Oxley Act of 2002 (SOX) required listed companies to have a 100% independent audit committee and audit committee independence level has been linked with higher monitoring (Bronson et al., 2009). Audit committees are even more important in the context of high ownership concentration instances. They can help strengthen other internal governance mechanisms present by reducing agency costs associated with ownership structures and providing an alternative to poor external regulatory conditions (Cai et al., 2015). Thus, the need to understand how effective this measure has been for emerging economies in improving firm value and performance as well as curtailing earnings management is necessary.

From the empirical results of research studies in high-quality journals, we find evidence of a higher likelihood of an effective audit committee role in firm performance for emerging economies. A sub-index of board structure for India, which included audit committees and independent directors on them, showed an insignificant effect which was also observed for 2/3 outside directors on the audit committee for Korea and for a proportion of independent directors on the audit committee in the case of Malaysia (Balasubramanian et al., 2010; Black et al., 2006; Mak & Kusnadi, 2005). However, positive effects have been cited as well for China (high agency costs due to concentrated ownership structure) and Korea especially when the audit committee includes accounting experts (Cai et al., 2015; Black et al., 2006). In addition, the adoption of Clause 49 by India brought a positive market reaction to the share price as the audit committee is an integral part of the Clause (Black & Khanna, 2007), and Korea also showed similar results (Black & Kim, 2012). However, it was seen, in Korea, that while stock price shoots up with audit committee appointments, firms switching audit committee membership reduces stock prices, as did chaebol affiliation (Choi et al., 2014).

A somewhat similar response from the audit committee on firm performance has also been noted for developed countries. There was a positive impact of independent and expert directors and audit committee independence on performance in Hong Kong, Australia, Canada, and the US (Leung et al., 2014; Aldamen et al., 2012; Chen & Li, 2013; Chan & Li, 2008; Erickson et al., 2005). A positive market reaction to the appointment of financial accounting experts (but not non-accounting financial experts) on the audit committee was observed for the US as well as for females and the number of female appointments to 14 US foreign firm's audit committee boards (with a greater share of two developed economies, namely the UK and Canada, and one emerging economy China) as compared to males (Huang et al., 2011b; DeFond et al., 2005). However, insignificant results have also been reported for the US market reaction when analyzing it through future stock price crashes and performance for Singapore and the UK (Andreou et al., 2016; Mak & Kusnadi, 2005; Weir et al., 2002).

Hence, one can infer that although audit committee independence and expertise can have an effective impact on performance measures in the case of developed as well as emerging markets, the mixed positive and insignificant results suggest some negative effects as well and therefore, must be further investigated before formulating governance policies.

Table 13. Impact of the audit committee on higher firm performance in developed and emerging economies

Effective	*Sources*
Emerging countries	Cai et al. (2015), Choi et al. (2014), Black and Kim (2012), Huang et al. (2011b), Black and Khanna (2007), Black et al. (2006)
Developed countries	Leung et al. (2014), Chen and Li (2013), Aldamen et al. (2012), Huang et al. (2011b), Chan and Li (2008), Erickson et al. (2005), DeFond et al. (2005)
Not effective	***Sources***
Emerging countries	Balasubramanian et al. (2010), Black et al. (2006), Mak and Kusnadi (2005)
Developed countries	Andreou et al. (2016), Mak and Kusnadi (2005), DeFond et al. (2005), Weir et al. (2002)

With earnings management propensities and levels inherent in corporate culture worldwide and especially in emerging countries, the existence of audit committees gains further importance. In accordance with the nature of audit committee work, a better functioning audit committee seems inevitable for reduced earnings management goals. As documented earlier for boards, the efficiency of audit committees in the monitoring capacity is further enhanced with the independence factor. We find various conclusions to this end. However, with a higher earnings management tendency in emerging countries, the fact that the audit committee's role in curbing such activities has not met with astounding success does not come as a surprise. While insignificant effects have been concluded in the case of Turkey, for female participation in audit committees, and Malaysia with independent and expert audit committees (Arioglu, 2020; Haniffa &

Hudaib, 2006), a positive association for female participation with lower financial irregularities and higher reporting quality as well as female directors, independent and financially expert directors with lower financial restatements was also witnessed for Iran (Li & Li, 2020; Oradi & Izadi, 2020). Thus, while we do see some studies reporting an insignificant impact, there is also evidence in favor of audit committees as a control measure for earnings management in emerging economies, especially with independent and expert female director presence.

Audit committees, as a control governance mechanism, once more show support for the agency theory in the case of developed economies. A negative impact on earnings management, financial restatements, and audit quality of females and their accounting/financial background expertise in UK, US, Finland, and Sweden firms, independent audit committees with industrial and financial expertise on board for US and non-executive audit committee members in Australian firms have been documented (Abbasi et al., 2020; Zalata et al., 2018; Wang et al., 2015; Sun et al., 2014; Ittonen et al., 2013; Agarwal & Chadha, 2005; Davidson et al., 2005; Xie et al., 2003). However, in Spain and the UK, independent audit committees were found to be insignificant (García Osma and Gill-de-Albornoz Noguer, 2015; Peasnell et al., 2005).

Table 14. Impact of the audit committee on curtailing earnings management in developed and emerging economies

Effective	*Sources*
Emerging countries	Li and Li (2020), Oradi and Izadi (2020)
Developed countries	Abbasi et al. (2020), Zalata et al. (2018), Wang et al. (2015), Sun et al. (2014), Ittonen et al. (2013), Davidson et al. (2005), Agarwal and Chadha (2005), Xie et al. (2003)
Not effective	***Sources***
Emerging countries	Arioglu (2020), Haniffa and Hudaib (2006)
Developed countries	García Osma and Gill-de-Albornoz Noguer (2015), Peasnell et al. (2005)

Audit committees as a governance tool have proven to not only bring better monitoring but also better performance and earnings management where the developed countries are concerned. The empirical results reported for emerging markets, however, are not so unanimously in favor of the audit committee, and therefore, while we do infer a positive impact in certain cases, audit committee implementation should be implemented here with due diligence.

In conclusion, we see that while demographic board diversity for emerging and developed economies has similar effective firm performance outcomes, gender board diversity in emerging markets has not met with the expected success witnessed for curbing earnings management in developed markets. In addition, some structural diversity mechanisms have varying implications for both performance and earnings management in both types of economies. This points to the value that external factors and mechanisms have in the overall effectiveness of governance tools. Caution must be applied when formulating policies as agency theory alone is not sufficient to explain and control all angles and add to the debate against the widespread adoption of Anglo-Saxon best corporate practices.

4.2. External and internal auditor

The role of internal and external auditors with respect to corporate governance also demands attention. Agency theory believes in the advantages of qualified personnel in achieving better governance. Internal auditors, with their knowledge and expertise, can help to ensure better financial monitoring and reporting. However, the varying ownership structures across firms and countries can have different impacts on internal auditor effectiveness, highlighting the role of the external auditor in such scenarios as well. Thus, both have been considered as essential for their support to the government authorities for efficient operations (Colbert, 2002).

The interrelationship between internal auditing and governance structures was probed in the case of Malaysia, where it came forward that certain governance elements like independent committee members with accounting and auditing knowledge have a positive and significant association with internal auditor's assessment of their contribution to financial statement audit. Review of internal auditor's proposals about internal audit programs or plans, budget, and coordination with external auditors, as well as audit size and staff expertise, was also positively associated with their assessment of contribution to external audit quality (Zain et al., 2006). Data collected through semi-structured interviews of auditors from Greek firms brought forward the auditor perception that internal audit function is a helpful monitoring source that also acts as an advisory to the firm and therefore, has a strong positive relation with corporate governance (Mertzanis et al., 2020). Direct associations between internal/external auditors and firm performance have not been extensively documented. Hutchinson and Zain (2009), nevertheless, showed for Malaysia that internal audit quality does have a positive link with performance (ROA), contingent on firm-specific characteristics like growth opportunities. However, they also presented the view that the internal auditor's effective role is sabotaged when audit committee independence is increased to the level of underrepresentation of insider directors that have firm-specific knowledge essential for making beneficial firm decisions. In relation to earnings management, Malaysia shows a positive relationship between internal audits and abnormal accruals. However, this sign was dependent on the outsourcing of audit and political connections of the firms, as excluding them showed a negative association (Johl et al., 2013).

Goodwin and Seow (2002) showed for Singaporean firms that their external auditors' and directors' perceptions favor the existence of an internal audit function, which in conjunction with compliance with the code of governance, can improve governance structures and audit effectiveness as well as curtail financial restatements. The internal audit function has also been associated with having a positive monitoring role in corporate governance for Belgian firms (Sarens & Abdolmohammadi, 2011) while Roussy (2013), investigating Quebec public firms, postulates that internal auditors place greater importance on answering to the top managers and organization rather than audit committee and hence categorizing

them as "governance watchdogs" would not be completely true. Goodwin-Stewart and Kent (2006) also show weak evidence of any relation between internal audit and corporate governance for Australian firms. The effect of internal audit on earnings management in the US showed that high-quality internal audit leads to lower earnings management (Prawitt et al., 2009).

For external auditors, a study on East Asian emerging countries showed that the agency problems stemming from ownership concentration demanded frequent hiring of external independent auditors-Big 5 (Fan & Wong, 2005). In addition, external auditor independence is crucial for ensuring the complete effectiveness of this control mechanism. For the emerging economy of China, Gul et al. (2009) conclude that the disaffiliation program meant to ensure auditor independence by the Chinese government led to a greater chance of receiving a qualified report and lower earnings management after auditor disaffiliation. The industry expertise of such auditors, however, does not lead to any significant results as is seen in the case of Taiwan IPO firms, an emerging country, but a positive effect of Big 5 auditors on lower earnings management was also witnessed (Chen et al., 2005).

In contrast to what we saw for the hiring of external auditors in emerging economies, a study in the US reports that family firms are less likely to hire top-tier auditors as the agency problem resulting from ownership concentration is mitigated here by family ownership (Ho & Kang, 2013). It was seen that audit committees of US firms that do not include employees and meet at least two times every year are more inclined to hire auditors with industry expertise (Abbot & Parker, 2000). Zhang et al. (2007) presented the importance of independent auditors by showing a positive association between the independent auditor and a greater likelihood of internal weakness identification in the US. In determining the impact of auditor independence as measured by discretionary accruals, Cahan et al. (2008) showed for the case of New Zealand that while the growth in non-audit fee services or the length of non audit services (NAS) relation of the auditor with the client as well as client importance (as determined by NAS fee) is insignificant with discretionary accruals, an interaction between NAS fee time period measures and client importance is positively and significantly related to discretionary accruals. The industry expertise of external auditors also enhances their impact overall. However, we find mixed results for the industry expertise of external auditors with earnings management for the developed economy of the US; city-level industry expertise for the US showed higher real earnings management (Chi et al., 2011) while Krishnan (2003) found that clients of Big 6 auditors with industry expertise showed lower discretionary accruals as compared to non-Big 6 auditors.

The impact of audit quality on earnings management is yet another aspect of analysis. The institutional and legal structure of countries determines, to some extent, the effect that audit quality can have on earnings management. High audit quality (Big 4) does not yield any significant results for Kazakhstan and no positive association was established for Bangladesh (Orazalin & Akhmetzhanov, 2019; Kabir et al., 2011). India, however, did depict a negative impact on income-increasing earnings management for high audit quality (Houqe et al., 2017). While Western nations have much stronger rules and regulations governing everything, differences between these countries can account for variations in the levels of audit quality. In the stricter audit environment of the UK and France, we see greater adherence to abstinence from earnings management as compared to Germany, where rules are not that strict, so much so that Big 4 auditor also shows similar results for earnings management (Maijoor & Vanstraelen, 2006). However, Australia shows no sign of high-quality audits as represented by Big 4 auditors on earnings management (Davidson et al., 2005).

4.3. Ownership concentration and shareholder activism

Developed countries' corporations are characterized by the traditional agency problem where increased benefits of controlling ownership concentration have addressed management and owner interest conflicts. However, for emerging markets, it must be kept in mind that the source of conflict is principal-principal in nature, which in essence arises due to concentrated ownership. Therefore, the additional emphasis on it might be misplaced for certain scenarios. Such countries would need a different corporate governance framework, catering more towards minority shareholder rights protection instead of focusing on management control (Claessens & Yurtoglu, 2013). Given this basic setup, the workings of ownership concentration as a corporate governance mechanism are bound to depict interesting implications for developed and emerging markets. Over the years, different forms of ownership concentration have materialized, and different ownership identities play different roles in corporate governance.

4.4. Family ownership

In the traditional principal-agent conflict, an alignment between ownership and control through family firms/concentrated ownership has been considered helpful toward agency cost reductions (Jensen & Meckling, 1976; Fama & Jensen, 1983; Young et al., 2008). Emerging markets with their weak institutional and external governance systems tend to have not only aggravated agency problems but their reduction also becomes difficult. Family firms are thus, a fairly common norm in emerging markets and have also been seen in developed countries. However, corporations operating under controlling shareholders point to an ownership structure that causes a separation between cash flow and voting rights, which in turn leads to a general perception of other minority shareholder expropriation and decreased firm value and performance (Jin & Park, 2015). The use of concentrated ownership as an internal governance mechanism is thus challenged in an already dominant ownership structure. Under such arguments, doubt about the effectiveness of concentrated ownership as a possible mechanism for emerging markets has erupted that needs to be thoroughly studied. Empirical research has brought forward interesting implications.

Empirical research conducted for emerging markets like Korea, Bangladesh, and Taiwan shows that the cash flow-voting right gap created due to family-controlled ownership can have positive impacts on performance indicators (Muttakin et al., 2015; Jin & Park, 2015[12]; Chu, 2011). However, insignificant results have also been given for performance- in eight Asian countries, most of which are emerging markets (Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, and Thailand) and Taiwan (Jiang & Peng, 2011[13]; Filatotchev et al., 2005) — as well as for market reaction (stock return volatility and share price fluctuation) in Taiwan (Huang et al., 2011a). Therefore, the mixed results make it difficult to establish a clear link of family firm concentrated ownership as a governance mechanism enhancing firm performance in emerging markets.

In contrast, greater support in favor of this mechanism for developed countries has been reported (Table 15). Family firms have been found to have a positive effect on firm performance in the US as compared to non-family firms (provided they have independent boards), in Germany (because of active participation), and in Canada when there is a wedge as depicted by dual-class shares (as long as there is no wedge between cash flow and voting rights and would otherwise turn negative), in some western European countries — Austria, Belgium, Finland, France, Germany, Ireland, Italy, Norway, Portugal, Spain, Switzerland, Sweden and the UK (van Essen et al., 2015; Andres, 2008; King & Santor, 2008; Maury, 2006[14]; Barontini & Caprio, 2006; Anderson & Reeb, 2004). For Spain, Fernández-Rodríguez et al. (2004) found the market reaction to family ownership as being insignificant.

Thus, while we do find mixed results, family firm ownership might not be as conducive for higher firm performance in emerging markets as has been seen for the case of the developed world, possibly due to the presence of a cash flow and voting right wedge inherent in such setups and more pronounced in emerging markets.

Table 15. Impact of family ownership on higher firm performance in developed and emerging economies

Effective	*Sources*
Emerging countries	Jin and Park (2015), Muttakin et al. (2015), Chu (2011)
Developed countries	van Essen et al. (2015), Andres (2008), King and Santor (2008), Maury (2006), Barontini and Caprio (2006), Anderson and Reeb (2004)
Not effective	***Sources***
Emerging countries	Jin and Park (2015), Jiang and Peng (2011), Huang et al. (2011a), Filatotchev et al. (2005)
Developed countries	King and Santor (2008), Maury (2006), Fernández-Rodríguez et al. (2004)

It is difficult to study the impact of family ownership on firm performance in isolation from their involvement in management. Therefore, in order to ascertain this effect, family CEO association with firm performance provides an enlightening aspect. A unanimous conclusion that a founder CEO improves firm performance can be drawn from various studies for both types of countries. We find results in support of a positive link between having a family CEO and firm performance indicators for China (Cai et al., 2012) and Taiwan (Chu, 2011). Jiang and Peng (2011) revealed, for eight Asian countries, that family CEOs have a positive effect on performance when the countries have weak legal structures (Indonesia and Taiwan), negative for Hong Kong, and insignificant for others. For the developed nations, a pattern of conclusions mirrored the effectiveness of active founder-led firms (acting as either CEO or as chairman with a hired CEO) with performance and this relation disappearing once the descendant/successor takes over as CEO by not only underperforming from founder-led firms but also from non-family firms in the US, Germany, and most European countries (van Essen et al., 2015; Andres, 2008; Barontini & Caprio, 2006; Villalonga & Amit, 2006).

This brings forward an interesting aspect of the family ownership debate. Although, family ownership in itself has been witnessed to be at times ineffective for better firm performance in emerging markets, the clear positive impact of founder CEO with performance points to the tangible benefits that family ownership can bring for firms due to better monitoring and governance.

Table 16. Impact of family CEO on higher firm performance in developed and emerging economies

Effective	*Sources*
Emerging countries	Cai et al. (2012), Chu (2011), Jiang and Peng (2011)
Developed countries	van Essen et al. (2015), Andres (2008), Villalonga and Amit (2006), Barontini and Caprio (2006)
Not effective	***Sources***
Emerging countries	Jiang and Peng (2011)
Developed countries	Jiang and Peng (2011)

With respect to earnings management, we find mostly ineffective responses for emerging countries. While Gonzales and Garcia-Meca (2014) showed family ownership to be insignificant for Latin American countries, a higher earnings management relationship was also found in Bangladesh, Taiwan, and Indonesia (Razzaque et al., 2016[15]; Chi et al., 2015; Siregar & Utama, 2008; Chen et al., 2007). For the developed markets, lowers earnings management for UK and US firms has been established (Al-Okaily et al., 2020; Wang, 2006)[16]. Jaggi et al. (2009) for Hong Kong reported the decline of positive impacts of internal governance mechanisms like board independence necessary for earnings management decrease, due to the presence of family ownership. Therefore, we observe that family-controlled ownership can have two-fold results not just for emerging economies but also for developed ones in earnings management evaluations.

From Table 17 we can see that most studies have reported family ownership does not seem to be

[12] Jin and Park (2015) result was positive for ROA but not for Tobin's q.
[13] While family ownership on its own is insignificant, its effect in conjunction with family CEO and pyramid variables, has different outcomes ranging from positive to negative to irrelevant for different countries.
[14] An insignificant relation emerged for Tobin's q for divergent legal conditions.
[15] Razzaque et al. (2016), however, did point towards a curvilinear relation where it has a positive effect on real earnings management (REM) only at low levels of ownership, and turns negative at higher levels.
[16] This relationship is adversely affected when an "economic bond" exists between auditors and owners for UK paper and for US reported a curvilinear relationship whereby positive effects are witnessed at lower ownership levels but negative ones at higher levels.

very effective for earnings management in emerging economies but could have a role to play for developed nations.

Table 17. Impact of family ownership on curtailing earnings management in developed and emerging economies

Effective	*Sources*
Emerging countries	Razzaque et al. (2016)
Developed countries	Al-Okaily et al. (2020), Wang (2006)
Not effective	***Sources***
Emerging countries	Razzaque et al. (2016), Chi et al. (2015), Gonzales and Garcia-Meca (2014), Siregar and Utama (2008), Chen et al. (2007)
Developed countries	Jaggi et al. (2009), Wang (2006)

4.5. Block holders

Large shareholders or block holders are yet another way to ensure that managers do not work for their interests at the expense of firm and minority shareholders, thereby reducing agency problems. They have the incentive, resources, and expertise to monitor and control managers so that overall firm value would increase, especially where external governance mechanisms are weak and low investor protection exists. Having said that, it is also to be noted that such power could be used by these shareholders to remove firm resources especially when a separation between cash flow rights and control rights exists (Lins, 2003; Lemmon & Lins, 2003). Therefore, given the wide implications of having large block holders in a firm, the varied response collected from empirical studies makes sense.

A study of 18 emerging markets shows that non-management block holders do indeed work as a good internal governance mechanism by positively effecting firm performance, especially in low investor protection environments as do research on India for both domestic block holders and foreign corporations with large shareholdings and on Malaysia (Douma et al., 2006; Haniffa & Hudaib, 2006; Lins, 2003[17]). A negative effect was also reported for Tunisia and Malaysia (Khanchel El Mehdi, 2007; Haniffa & Hudaib, 2006). In emerging countries like Malaysia, Thailand, Korea, Indonesia, Philippines, and Taiwan, where the risk of expropriation of minority rights exists, managerial block holder ownership signals lower stock returns and Tobin's q but when the largest block holder is not managed than there is no significant effect on firm value (Lemmon & Lins, 2003).

Due to the high control power that such shareholders hold, their impact has turned out to be both negative and positive for developed nations. Some papers have reported a positive impact for Spain (for family firms where block holders do not have more voting rights than family owners), the US, Finland[18], and Budapest; Hungary but not for subsequent additions, thereby also suggesting that the benefits cease after a threshold (Sacristán-Navarro et al., 2015; Larcker et al., 2007; Maury & Pajuste, 2005; Earle et al., 2005). Market reaction for Japan was also positively associated (Yeh, 2014). Krivogorsky (2006) however, shows an insignificant impact of block holders for European countries while Erickson et al. (2005) show a negative effect for Canada. Non-family block holders were also seen to be either insignificant or negatively significant in the case of German firms (Andres, 2008). Furthermore, since minority shareholder rights are not in jeopardy for developed countries, the market reaction to outside block holder ownership was seen as insignificant for the US (Andreou et al., 2016).

As is observable from Table 18 and the above discussion, block holders' effectiveness as an external form of corporate governance mechanism depends on various factors in both developed and emerging economies. Therefore, to achieve its true benefits it must be implemented after due consideration of other firm and country-level characteristics.

Table 18. Impact of block holder ownership on higher firm performance in developed and emerging economies

Effective	*Sources*
Emerging countries	Douma et al. (2006), Haniffa and Hudaib, (2006), Lins (2003)
Developed countries	Sacristán-Navarro et al. (2015), Yeh (2014), Larcker et al. (2007), Maury and Pajuste, (2005), Earle et al. (2005)
Not effective	***Sources***
Emerging countries	Khanchel El Mehdi (2007), Haniffa and Hudaib (2006), Lemmon and Lins (2003)
Developed countries	Andreou et al. (2016), Andres (2008), Krivogorsky (2006), Erickson et al. (2005)

With respect to earnings management, the block holder effect documented for emerging markets gives evidence of no effectiveness as a governance mechanism. While an insignificant impact on earnings management/fraud has been observed for Malaysia and China (Haniffa & Hudaib, 2006; Chen et al., 2006), other studies on China and East Asia have found them to have a damaging effect on earnings management/earnings informativeness (Jiang et al., 2020; Fan & Wong, 2002). For 24 emerging markets, Bao and Lewellyn (2017) showed that controlling ownership, as the largest shareholder as a percentage of all shares, has a positive effect on earnings management and this relationship are weakened when minority shareholders have high protection. Gonzales and Garcia-Meca (2014) for Latin America, brought to the forefront a non-linear relationship where high block holder ownership leads to a positive effect on earnings management and vice versa. However, block holder ownership seems to have a somewhat better role in governance in developed countries with some studies documenting an effective earnings management constraint. For Singapore high external block holding yields lower earnings management through better earnings informativeness (Yeo et al., 2002)[19]. A block holder's exit threat has also been noted to bring about higher financial reporting quality for the US (Dou et al., 2018). Peasnell et al. (2005) for the UK and Larcker et al. (2007) for the US, however, show block holder ownership to be insignificant while more earnings management was also seen around the time of

[17] However, when the largest block holder is also the management, then there is a significant negative impact.
[18] The downside effect kicks in when the control is not evenly shared.
[19] Managerial ownership was seen to have a non-linear relationship with earnings informativeness positive at low levels and negative at high levels.

seasoned equity offerings with outside block holders in the US firms (Gutherie & Sokolowsky, 2010).

Therefore, overall block holders for the developed countries can and do at times bring effective results, whereas they do not seem to fare as well for the emerging economies especially in curtailing earnings management.

Table 19. Impact of block holder ownership on curtailing earnings management in developed and emerging economies

Effective	*Sources*
Emerging countries	
Developed countries	Dou et al. (2018), Yeo et al. (2002)
Not effective	***Sources***
Emerging countries	Jiang et al. (2020), Bao and Lewellyn (2017), Gonzales and Garcia-Meca (2014), Haniffa and Hudaib (2006), Chen et al. (2006), Fan and Wong (2002)
Developed countries	Gutherie and Sokolowsky (2010), Larcker et al. (2007), Peasnell et al. (2005)

4.6. Institutional investors

Ownership through equity by different groups has been associated with having an impact on performance (Jensen & Meckling, 1976). Institutional investors are another type of ownership mechanism, albeit external, that can prove effective in monitoring. Within institutional investors, their identity with respect to foreign or domestic as well as different investment types is also crucial for the ultimate impact. Due to their greater role in the monitoring department, a direct relationship with firm performance has not been researched and documented extensively. However, some evidence does exist. Döring et al. (2021) provide proof of an international positive control over manager behavior by the exit threat (given firm conditions where it is valuable) of short-horizon institutional investors, particularly foreign investors, which also leads to higher firm value. On the other hand, the beneficial monitoring effect of institutional investors' expertise could be suppressed due to "conflict of interest" and "strategic alignment" reasoning (Pound, 1988).

Despite the possible negative implications of institutional investors on firm performance, mostly positive performance impacts are observed for emerging markets, consisting of China for pressure-insensitive, foreign, and large institutional investors in comparison to pressure-sensitive, domestic, and small institutional investors, Egypt, Korea (especially for external foreign investors) and for foreign rather than domestic institutional investors in Taiwan (Lin & Fu, 2017; Omran, 2009; Choi et al., 2007; Filatotchev et al., 2005). A positive market reaction was also observed for Malaysia, where institutional ownership was positively associated with analyst following (How et al., 2014) and a negative impact on stock return volatility and share price fluctuation was seen for Taiwan (Huang et al., 2011a). Interestingly, Patibandla (2006) finds that for Indian firms, securing funding from government-backed financial institutions leads to a decline in performance and Tunisia also reports a negative impact (Khanchel El Mehdi, 2007[20]). From the little we have on performance measures for developing countries, we find mixed results for an effective impact on higher firm performance, although there is a greater tendency for an ineffective impact. The association has been seen as positive for the US and Western European countries (Chhaochharia et al., 2012[21]; Krivogorsky, 2006). Market reaction for the US was also seen to be positively linked, especially so for firms that tend to have less informative prices or have good governance (Cheung et al., 2009). The impact on returns, however, was found to be insignificant for Hong Kong and Spain (Li et al., 2006; Fernández-Rodríguez et al., 2004) while UK and Canada have reported a negative relation between institutional investors and firm performance (Mura, 2007; King & Santor, 2008). A negative impact of transient institutional ownership was also observed for the US when future stock price crash risk was measured (Andreou et al., 2016).

Thus, as Table 20 depicts, institutional ownership can be considered a viable tool for governance that can be applied in firms around the world (albeit cautiously) despite country-wide differences.

Table 20. Impact of institutional ownership on higher firm performance in developed and emerging economies

Effective	*Sources*
Emerging countries	Lin and Fu (2017), How et al. (2014), Omran, (2009), Choi et al. (2007), Filatotchev et al. (2005)
Developed countries	Chhaochharia et al. (2012), Cheung et al. (2009), Krivogorsky (2006)
Not effective	***Sources***
Emerging countries	Huang et al. (2011a), Khanchel El Mehdi (2007), Patibandla (2006)
Developed countries	Andreou et al. (2016), King and Santor (2008), Mura (2007), Li et al. (2006), Fernández-Rodríguez et al. (2004)

A noteworthy relation of institutional investors is seen with earnings management as well. Evidence points mainly to the insignificance of this mechanism where curbing earnings for emerging economies is concerned. While a negative relation was witnessed in the second-largest emerging economy, India, especially for domestic institutional investors, which are their largest institutional investors (Sarkar et al., 2008), Latin American firms and Indonesian firms reported them to be insignificant (Gonzales & Garcia-Meca, 2014; Siregar & Utama, 2008) as did Bao and Lewellyn (2017) for 24 emerging markets. The developed world, on the contrary depicts a much more favorable outcome. A negative relation was seen for the US (Chhaochharia et al., 2012; Cornett et al., 2008; Chung et al., 2002). A non-linear relation was observed for Australia, where low institutional ownership led to a positive association, but high ownership levels turned into a negative relation for earnings management (Koh, 2003). However, Peasnell et al. (2005) reported institutional ownership to be insignificant.

[20] This study attributes such decline to ineffective monitoring by government owned institutional investors.
[21] The study talks about local institutional investors.

Table 21. Impact of institutional ownership on curtailing earnings management in developed and emerging economies

Effective	*Sources*
Emerging countries	Sarkar et al. (2008)
Developed countries	Chhaochharia et al. (2012), Cornett et al. (2008), Koh (2003), Chung et al. (2002)
Not effective	***Sources***
Emerging countries	Bao and Lewellyn (2017), Gonzales and Garcia-Meca (2014), Siregar and Utama (2008)
Developed countries	Peasnell et al. (2005), Koh (2003)

So, once more we find a governance mechanism effect on earnings management to be different between developed and emerging markets (Table 21). While institutional investors can prove to be beneficial in improving firm performance, curbing earnings management has not met with the same success for emerging economies, whereas developed countries seem to reap greater benefits from their existence.

Thus, in conclusion for the ownership concentration mechanism, family ownership has a greater beneficial performance effect for developed nations, although some evidence for emerging markets also exists. In addition, it was also found that earnings management has the possibility to be successfully curbed through family ownership in the case of developed countries but not so much for emerging economies. Research on block holder ownership has so far not revealed a clear relation with firm performance but mostly shows an effective impact for earnings management on developed nations and clear ineffectiveness for emerging economies therefore, its application as a governance mechanism must be done after due consideration has been given to all factors. Lastly, institutional investors also seem to bring about positive impacts for emerging rather than developed countries, but only for firm performance measures, and show very little promise for constraining earnings management in emerging markets. However, it must also be kept in mind that emerging markets have been known to engage in this activity at a higher rate than the developed world.

4.7. Equity-based CEO compensation

In the struggle to tackle agency problems, manager remuneration incentives are considered yet another viable tool. These compensation packages are composed of various elements that include cash incentives, bonuses, perks and stock, and share options, to name a few. Such plans have long been considered conducive to aligning manager and shareholder interests (Jensen & Meckling, 1976). From the plethora of research work done to ascertain the extent of the correlation between these incentives and firm performance, it has been brought to notice that the exercise of compensation types varies across countries. While the western world, especially the US, has graduated to the use of stock ownership as a compensation plan, most of the emerging economies show very limited use.

Despite the vastly divergent ownership structures prevalent in emerging economies, the use of compensation schemes for enticing managerial faithfulness is in play, albeit the preferences differ. The dearth of studies on equity-based incentives for managers in developing countries can be attributed to the very low use of such practices. However, some big emerging markets like China gave a positive correlation between share ownership compensation and performance (Conyon & He, 2011), Philippines bonuses (including a small percentage of share option grants) that did not sustain for family-owned firms (Unite et al., 2008) and Malaysia for CEO pay that included share options (Ismail et al., 2014). Still, for Bangladesh, employee stock ownership was seen to be insignificant for organizational performance (Houqe, 2011).

Consistent with the idea of a positive impact of managerial equity ownership on performance, the mandatory managerial stock ownership plan in the US did show excess return two years after its implementation (Core & Larcker, 2002) and the long-term compensation that included share options, also showed a positive association after the SOX period (Shim & Kim, 2015) as did stock option plans for Japan, although here limited in use was the incentive (Kato et al., 2005). However, it was also pointed out that an increase in CEO equity pay ratio, after a certain threshold, changes from a positive impact to having no effect at all or rather a negative impact (Kuo et al., 2013). In contrast, New Zealand showed no positive effect of either share ownership compensation or the adoption of incentive schemes but a positive effect of compensation that included share option and not share ownership was seen (Elayan et al., 2003). Australian firms showed a negative effect of equity-based compensation adoption for the following year (Matolcsy et al., 2012) while for the UK an insignificant effect of the total compensation component that included equity ownership, was reported (Ozkan, 2011).

Thus, Table 22 portrays greater relevance for effectiveness on firm performance when CEOs are rewarded with equity-based compensation, aligning their interest with owners and reducing agency costs. This result seems to be consistent for both emerging and developed countries and therefore, seems to be one of the few corporate governance mechanisms that can be generalized all over.

Table 22. Impact of equity-based CEO compensation on higher firm performance in developed and emerging economies

Effective	*Sources*
Emerging countries	Ismail et al. (2014), Conyon and He (2011), Unite et al. (2008)
Developed countries	Shim and Kim (2015), Kuo et al. (2013), Kato et al. (2005), Elayan et al. (2003), Core and Larcker (2002)
Not effective	***Sources***
Emerging countries	Houqe (2011)
Developed countries	Kuo et al. (2013), Matolcsy et al. (2012), Ozkan (2011)

Despite the basic intention behind managerial incentives of aligning shareholder and management interests, researchers have unearthed a rather disturbingly negative association of compensation packages with earnings manipulation. However,

authors have also insisted on analyzing these patterns contingent on various factors, ranging from institutional and environmental practices to corporate governance quality and the types of incentives themselves.

For emerging countries, China shows that managers' equity-based incentives lead to a greater probability of corporate fraud (Hass et al., 2016), which according to Zhou et al. (2018), is seen for firms with delisting pressure only and not otherwise. Bonuses, in the case of Iranian firms, were found to positively effect accrual earnings management but had a negative association with real earnings management, given the fact that real earnings affect future firm performance (Moradi et al., 2015).

Interestingly, we find the developed world depicts a somewhat similar behavior. For the US, it was seen that greater out-of-the-money stock options and lower stock ownership lead to greater earnings management (Zhang et al., 2008) while Duellman et al. (2013) concluded for the US that the incentive alignment effect supersedes opportunistic financial reporting effect for increased monitoring, especially for real earnings management of high and moderately monitored firms. Although low-monitored firms show a greater strength of opportunistic financial reporting, the incentive alignment is not completely eradicated. Accruals management and meet/beat analyst forecasts, on the other hand, do show the dominant effect of financial misreporting. Erickson et al. (2006) showed that a small increase in the proportion of stock-based compensation leads to a higher increase in the probability of accounting fraud. The negative behavior of managers toward enhanced executive compensation led to the conclusion that given high equity incentives (stock-based compensation and stock ownership), managers are likely to sell shares in the future. They would resort to earnings management (income increasing abnormal accruals) as that would increase the short-term share price and would also be less likely to report big increased earnings surprises (Cheng & Warfield, 2005). A similar pattern of effects emerged for the UK, where a higher proportion of performance-vested stock options led to a greater likelihood of earnings management, keeping in mind the vesting period and targets (Kuang, 2008). It was also seen that there is a positive relation between CEO incentive-based compensation and earnings management and that this effect is less pronounced for countries like UK and Australia that follow the Anglo-Saxon model and have higher investor protection, corporate governance quality, and legal environment than Germany and Austria-Euro-continental model for whom legal environment and investor protection did not mitigate the positive association (Almadi & Lazic, 2016). However, it was also observed that a positive effect of equity-based compensation, as hoped for, is possible in scenarios where monitoring is strong.

Hence, overall, we see mostly an ineffective relation of equity-based compensation with earnings management mitigation for emerging economies and to quite some extent for developed as well.

Table 23. Impact of equity-based CEO compensation on curtailing earnings management in developed and emerging economies

Effective	*Sources*
Emerging countries	
Developed countries	Duellman et al. (2013), Zhang et al. (2008)
Not effective	***Sources***
Emerging countries	Zhu et al. (2018), Hass et al. (2016), Moradi et al. (2015)
Developed countries	Almadi and Lazic (2016), Duellman et al. (2013), Kuang (2008), Zhang et al. (2008), Erickson et al. (2006), Cheng and Warfield (2005)

5. DISCUSSION

We review academic literature investigating the influence of various corporate governance mechanisms on firm performance, valuation, and financial reporting practices in emerging markets in contrast to developed markets. The aim of this endeavor was to build a comparison of the effectiveness of these mechanisms for emerging and developed markets. In the context of contrasting country-level differences and a propensity for following developed countries' prescribed governance codes and regulations, it is necessary to ascertain whether this practice is beneficial or detrimental. This review hints at the detrimental effects of the "one-size-fits-all" transplantation of some corporate regulations and points to the need for generating country-specific policies catering to indigenous political, cultural, and economic realities.

Empirical studies have generally found mechanisms like diversity in the board of directors, for example, gender and ethnic diversity (albeit the specific threshold is maintained) to be effective for both developed as well as emerging markets for performance measures, thereby, supporting widespread adoption if better performance indicators are the agenda. However, caution must be applied before policies are implemented due to clear divergent results of gender with earnings management propensities. Overall independent/ outside director results do not recommend incorporating this mechanism universally as various other factors like independence level, expertise and links can impact the effectiveness and especially with opposite outcomes for earnings management in both types of countries. Larger boards were seen to be more effective for emerging rather than developed markets where performance was concerned and vice versa for earnings management, thereby, pointing towards an unlikely consensus on optimal board size overall. Separation of the role of chairman of the board and chief executive is another mechanism that has been stressed in developed countries but most studies examining it in emerging economies do not report it to be an essential requirement for performance and therefore, despite similarly reported insignificance for earnings management for developed as well as emerging nations, CEO-duality policy cannot be generalized. Studies evaluating the role of audit committees have more often found them to be useful in mitigating agency problems in developed countries than in emerging markets. Nevertheless, the careful design of the audit committee, including financially literate

members and gender balance improves effectiveness in almost all cases. Thus, this mechanism implementation must be done with due consideration. Internal and external auditors are effective mechanisms but cultural and political issues in emerging markets need to be addressed to maintain that effectiveness.

For ownership structures, family ownership seems to have come out as a slightly more viable tool for governance in developed countries as compared to emerging economies but the presence of a family CEO seems to allow this mechanism to be effectively employed worldwide to enhance performance. Block holder ownership is an area where researchers have not been able to establish a clear association for both types of countries and institutional ownership has shown different results for both, therefore, their blind adoption is also questionable. Equity-based compensation for management is found to be an effective control tool and equally applicable for both emerging and developed economies as far as the objective is higher performance but this mechanism seems to be mostly a failure in curtailing earnings management around the world.

Ownership concentration is yet another essential topic for corporate governance as the divergent structures all over the world present challenges that need to be taken into account before any policy can be implemented. The mixed results of block holder ownership for emerging as well as developed markets in both performance and earnings management case points to the need for further in-depth analysis. Within the context of demographic board diversity elements and the internationalization of businesses, ethnicity/nationality is bound to leave impressionable impacts that need to be probed in detail to grasp their relevance for governance and thus their impact on overall firm performance. This is especially true for big emerging economies like China and India with their widespread expansion. Furthermore, with the continuously evolving economic and corporate environment, corporate governance dynamics are also likely to reflect these changes and therefore, the need for more research exists. Greater emphasis on social and environmental facets of governance tools impacts has become the norm in recent years and thus, more literature for both types of markets will highlight their relationship, significance, and general applicability.

6. CONCLUSION

Overall, we find that academic studies highlight the issues that hinder the fruits of "good" corporate governance policies to be properly harvested in emerging economies. The policymakers and regulators in emerging economies need to be vary of local political, cultural, and economic variables before adopting regulatory regimes from the developed countries.

However, specific areas need to be analyzed in further detail before arriving at a comprehensive conclusion. CEO equity compensation, for one, demands deeper research as to the extent of its application for emerging economies as well as its effectiveness. The lack of data so far has been attributed to the fact of limited use of such measures in these countries. However, the positive relation that has been witnessed in the case of performance and the negative association found for earnings management exerts a powerful motivation for further exploration that could prove beneficial for the economy.

Finally, we realize that this paper has certain limitations. While we present results of empirical studies with respect to corporate governance mechanism effectiveness, brevity considerations do not allow us to provide a detailed analysis of factors leading to such conclusions. An elaborate comparison between the developed and developing world for one specific measure can help present a clearer picture of how successful/unsuccessful it is, what reasons contribute towards this end, and why this mechanism can or cannot be replicated in emerging markets. In addition, our review sample consists of studies on non-financial firms and therefore, the effect on the financial sector is omitted. Furthermore, this study focuses on internal governance mechanisms only and excludes external mechanism discussion.

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