Edelweiss Applied Science and Technology
ISSN: 2576-8484
Vol. 9, No. 9, 1462-1470
2025
Publisher: Learning Gate
DOI: 10.55214/2576-8484.v9i9.10154

The role of corporate governance mechanisms in the emerging economies

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Abstract: Corporate governance has attracted extensive attention globally due to its overarching impact on a business's future prospects. More specifically, the progression of social and environmental challenges requires businesses to respond to and address stakeholders' concerns worldwide. Corporate governance practices are integral to the evolution and management of businesses, particularly in emerging nations. This study aims to investigate and understand the concept of corporate governance, examining its definition, importance, theories, and codes. Corporate governance mechanisms ensure that firms are operated transparently, responsibly, and ethically, which is essential for sustainable development. Theories of corporate governance are significant as they provide insights into the roles and interests of various stakeholders. The study also highlights some of the most important codes of corporate governance that establish frameworks and guidelines for the accountable management and control of companies. These codes are designed to facilitate efficient, ethical, and transparent business administration, ultimately benefiting stakeholders.
Keywords: *Code, Economy, Mechanism, Practices, Standards.*

1. Introduction

Corporate governance mechanisms is how companies are regulated, guided, and controlled, for instance, the management of processes and relations by which businesses are administered and operated. It is one of the driving forces in the pursuit of having businesses operate in responsible, open, and equitable manners to stakeholders in developed and developing economies [1]. Emerging economies are characterized by the fast growth of their economies, evolving financial markets, and increasing integration in the world economy. Emerging economies are likely to experience some of the issues, such as political instability, less stable legal and regulatory frameworks, and more corruption [2, 3]. Thus, good corporate governance practices are required to reduce these risks and establish a stable and favorable investment climate.

One of the most attractive aspects of corporate governance is that it will be in a position to mobilize funds from other sources. Similarly, foreign investors would be willing to invest if they can be guaranteed of good quality governance, as well as the assurance of secure investment [4]. Strong regulation and practices enhance investors' confidence because organizations ensure that they have high levels of transparency and accountability, which sets fraud and misappropriation of funds at low risk [5].

Good corporate governance also serves the economic growth and stability of emerging economies in general. Through good business practice, code compliance, regulatory oversight, and improved efficiency in management, corporate governance provides a sound foundation for sustainable growth [6]. Corporate governance also makes access to the capital market easier because well-governed companies are perceived in a favorable manner by lenders and investors [7]. As a result, corporate

History: Received: 8 July 2025; Revised: 15 August 2025; Accepted: 20 August 2025; Published: 23 September 2025
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governance best practices are also the expectation of all stakeholders on the basis of their different areas of concern.

Thus, the need and urgency of corporate governance codes, standards, and practices in emerging economies cannot be overstated. They are central to capital attraction, economic stability, protecting the rights of shareholders, and facilitating globalization. As emerging economies grow and develop, the adoption of good governance and corporate practices will be instrumental in guaranteeing their sustainable development and long-term prosperity [8].

Corporate governance incorporates the relationships of the company's board of directors, management, shareholders, and internal and external stakeholders. While there is no universal model for good governance and corporate practices, the system aims to align and match the interests of various stakeholders [9]. Similarly, numerous theories have been conceptualized to improve the notion of corporate governance, with the goal of maximizing the wealth of all stakeholders. This paper explores and highlights the importance of corporate governance mechanisms in emerging economies and key theories applied within corporate governance systems. This is qualitative research, and we explored various research papers, literature, and theories, and attempted to highlight the value of corporate governance mechanisms in developing economies.

2. Literature Review

Theoretical frameworks of corporate governance date back to the 16th century with the development of large companies. These early corporations institutionalized the idea of joint-stock companies, where ownership was divided into shares held by investors. This was the beginning of the separation of ownership from management function, which set the stage for modern corporate governance [10]. During the 19th century, the concept of limited liability became legally established, further separating personal property from corporate property. This legal evolution was important because it enabled investors to cap their losses at the value invested in the company, thereby inducing more individuals to invest in corporations [11]. The early 20th century was characterized by the establishment of regulatory bodies to oversee corporate conduct. In the 1930s, the Securities and Exchange Commission (SEC) was established in the United States to oversee stock markets and ensure investor protection. The era also witnessed the end of World War II, which led to robust economic development and enormous amounts of power with corporate executives [12].

The modern concept of corporate governance began to take root in the 1970s. During this time, "corporate governance" was becoming increasingly used, particularly in the US. The SEC played a crucial role during this period, with a focus on reforms to enhance accountability in corporate management [13]. The activists' acquisition in the 1980s was against shareholder interests and board accountability. With a series of corporate failures and financial crises, countries began to draft and implement codes of corporate governance. The United Kingdom, for instance, implemented its Cadbury Committee Code of Best Practice in 1992, which evolved into the U.K. Corporate Governance [14].

The first two decades of the 21st century experienced the greatest number of legislative efforts toward improved corporate governance. In America, the Sarbanes-Oxley Act of 2002 was enacted to strengthen corporate governance practices and financial information disclosure after highly publicized company scandals [1]. The 2008 financial crisis once more reignited the issue of the importance of good corporate governance, and reforms took place in the shape of various protection acts.

Corporate governance is a global phenomenon since countries around the world have employed governance frameworks to apply accountability and transparency in the dissemination of information that would be of interest to stockholders [15]. The application of technology and greater emphasis on sustainable business dimensions are shaping the new corporate governance picture, and corporations are being pushed towards greener and ethics-based business [16]. Corporate governance structures continue to evolve, perpetually shifting in direction under economic, legal, and social stresses. From the first chartered companies to current regulatory frameworks, corporate governance continues to evolve to address an ever-evolving world economy.

Corporate governance is of critical significance to emerging economies due to a myriad of factors since it provides growth, stability, and market attractiveness. Effective corporate governance systems provide economic stability and growth by ensuring accountability, transparency, and ethical business practices that restrict the chances of political instability and corruption [3]. This makes sure that the environment is favorable for sustainable growth. Further, corporate governance that is good holds foreign capital in the way of maximum transparency and accountability, and it decreases the likelihood of fraud [17]. Further, it protects minority shareholders in concentrated ownership markets by providing them with a fair bargain due to independent boards and strict disclosure requirements. High-governance firms in emerging economies have better performance via advanced decision-making systems that optimize efficiency and ensure shareholder rights [18]. Effective governance practices are noted to provide easier access to new market capital for firms in order to mobilize capital and overcome growth obstacles [19].

Similarly, the globalization of corporate governance standards enhances the integration of developing economies more into the international economy, leading to more competitiveness and attractiveness to cross-border takeovers and acquisitions for companies. The corporate governance function has a great part to play in developing, expanding, and succeeding in new economies by promoting a favorable investment climate, safeguarding shareholder interests, enhancing the performance of companies, encouraging ease of capital access, and enhancing global interconnectedness [20].

Good practices in governance form the cornerstone of the promotion of sustainable development as well as long-term success within such rapidly changing markets. Corporate governance expectations are needed from companies to be run responsibly, ethically, openly, and in the highest interest of shareholders [21]. Responsibility makes boards of directors and upper management accountable, requiring them to justify themselves and their actions to the extent they explain them based on the business objectives and morals of the business. Similarly, transparency involves providing timely, accurate, and complete information about the company's performance, operations, and any conflicts of interest, which helps build trust with investors, employees, and the public [22]. Whereas fairness ensures that all stakeholders are treated equitably and balances the interests of all parties with power and interest. Another important principle, responsibility entails the board and management driving the company towards success while adhering to legal and ethical standards, making decisions that protect the business's long-term interests and its stakeholders [23].

Effective corporate governance also involves risk management, where the board of directors identifies, assesses, and manages risks, developing strategies to mitigate them and ensure the company's resilience. Independence refers to board members approaching decisions with an independent mindset, free from personal interests or biases, ensuring that all decisions are made in the best interest of the stakeholders [24]. Independence in mind and independence in appearance are both required. These principles construct the foundation of good corporate governance, helping companies build trust, enhance performance, and achieve sustainable growth in emerging economies.

3. Corporate Governance Theories

Corporate governance theories are significant in understanding how businesses are directed and regulated, and they assist in developing a framework for fixing the various issues that businesses face [8]. Agency theory, stewardship theory, stakeholder theory, and resource dependence theory are the most dominant theories in the corporate governance literature that are used to understand the corporate governance mechanism. These theories provide alternative perspectives on relationships between shareholders, managers, and other stakeholders.

3.1. Agency Theory

All theories of corporate governance stem from agency theory, which is premised on the relationship between managers (agents) and shareholders (principals). Shareholders aim to optimize their wealth while managers strive to achieve higher levels of compensation. That is the cause of agency problems - competing goals that is referred to as interest divergence [18]. This economic theory is known to have originated from Adam Smith and was refined around 1976 by Jensen and Meckling, who defined it as an owner-management contract abused by conflict of interest and information asymmetry.

Agency problems can be categorized into three types. The first form is the 'Principal-Agent Problem', which arises when principals (shareholders) delegate authority to managers (agents). In theory, the agents can prioritize their payments more than the interests of the principals, which can create conflicts in the long-term objectives. The second one is called the 'Principal-Principal Problem' and happens between dominant and subordinate shareholders within large corporations. Dominant shareholders can serve their interests while subordinate shareholders incur losses; hence, this results in a conflict of interest. The last one is called the 'Principal-Creditor Problem' - where the disagreement issue pertains to the owners and their creditors in regard to funding of a risky initiative [25]. Owners can pursue high-risk projects that are disadvantageous to creditors. This situation also leads to a conflict of interest.

Because conflicts of interest, accountability, and transparency can be solved through an existing integrated framework, agency theory forms the basis for effective corporate governance. These concerns enable the creation of trust among the managers and shareholders, leading to better performance of the firm and, consequently, the success of the company over time [18]. Agency theory, unlike a traditional management approach, concentrates upon the requirement of implementing governance mechanisms such as independent directors and audit committees to protect stakeholders' interests and monitor the activities [26].

3.2. Stakeholder Theory

Stakeholder theory extends agency theory to cover the interests of all stakeholders, and not merely shareholders. Expansion by Freeman, et al. [27] is one in which organizations are required to create value for all the stakeholders, from employees and customers to suppliers and society. Since business administration has many stakeholders, managers will tend to do their best for others, and their performance will be evaluated by the boardf directors [28].

Stakeholder theory demands that businesses balance the interests of various stakeholders, bestowing benefits and working in the interest of the public. Stakeholder theory was built on management, but has expanded to dominate company management, demanding equitable treatment of all stakeholders [29]. Despite the argument that success in a business is only quantifiable in terms of stakeholder returns, stakeholder theory remains prevalent because of its participative approach to governance.

Freeman, et al. [27] assumed that any group or party to and for which the organization's decision has an impact or is influenced is a stakeholder. Stakeholder theory evolved step by step to cover the whole membership of the society where the firm is operating, e.g., employees, suppliers, local community, and competition. Stakeholder theory gives the need that firms must maximize and balance the interests of the various stakeholders so that each gains at least some degree of payoff [30].

In the modern business era, the success of the business is a matter of concern not only with owners or shareholders but also with suppliers, creditors, employees, potential investors, the government and regulatory agencies, the local community, lenders, trade associations, and society in general [28]. All this extensive spread of interest has led stakeholder theory to take center stage, where the interests of all the stakeholders are considered and acknowledged. The theory allows for fair treatment of all the stakeholders and is now incorporated into corporate governance [31].

Stakeholder theory has been criticized for suggesting that the performance of the company cannot be measured in terms of profit to the stakeholders alone. However, it occupies a strong position among the theories of company governance because it attempts to fulfill the interests of all the stakeholders in the process of governance [29].

3.3. Resource Dependence Theory

Resource dependence theory was developed by Pfeffer and Salancik [32]. The theory revolves around the existence of limited resources rather than emphasizing managerial relations with other organizations. The theory incorporated external environmental resources in a bid to understand their influence on organizational action [33]. The most fundamental implication is that organizations need to offer the world outside linkages and that the capabilities of the firm should be coordinated to slot into emerging trends within the environment by its managers [26].

The theory is centered on the board of directors and their ability to obtain and acquire resources required by the business from their networks in the external world. Directors bring various resources, such as skills, information, and raw materials, through experience, to connect the business with the resources [18]. Therefore, the performance of a company depends greatly on the ability of the board to acquire scarce resources.

3.4. Stewardship Theory

Stewardship theory, developed by Donaldson and Davis [34], is an alternative to agency theory. Stewardship theory assumes that managers, being stewards, will act in the best interests of the shareholders. It is psychologically and sociologically based and assumes that managers will always act to protect and generate profits for shareholders. Management stewardship has much to do with the prosperity of the company, and where shareholder wealth is maximized, stewards also benefit through compensation [10].

Among the distinctions of stewardship theory is an emphasis on trusting managers, which agency theory does not have. It assumes that inside directors are better informed about business operations and performance than outside directors [4]. Managers are trusted to safeguard shareholders' interests by making sound decisions that increase their wealth. Stewardship theory pursues the assumption that shareholders perceive greater power and confidence in managers (stewards) who will maximize shareholders' wealth. In doing so, shareholders receive greater profits and investment returns, whereas managers receive intrinsic and extrinsic rewards [25]. The theory joins a positive relationship between shareholders and management, which is at the heart of successful corporate governance. Stewardship theory's foremost concern is the optimal way to motivate managers to achieve business goals. It seeks to align managers' (agents) and owners' (principals) interests, as well as to create a culture of cooperation and mutual trust for the good of both parties [35].

4. Codes of Corporate Governance

Corporate governance codes and standards are sets of guidelines aiming to make certain that companies perform their business in an open, accountable, and ethical manner. The standards function to direct the behavior and decision-making processes of a company's executives, directors, and board members. The most common corporate governance report, 'The Cadbury Report' was released in December 1992. It is recommended that there must be a demarcation of the roles at the top management level with a balance of power. It emphasized that the existence of a sufficient number of independent directors, the appointment of an independent audit committee, and a strong internal control system will protect stakeholders' interests. Later, it was incorporated in the UK Corporate Governance Code [36]. The Organization for Economic Cooperation and Development (OECD) Principles of Corporate Governance is a well-developed framework that attempts to promote transparency, accountability, and fairness in corporate governance worldwide.

The principles are based on the necessity of having a good governance system that safeguards shareholder rights, is equitable in treating all stakeholders, efficient as far as transparency and disclosure are concerned, and the role of the board of directors. The principles are global and define the corporate governance practice of companies, particularly in developed economies [37]. Similarly, the US Sarbanes-Oxley Act of 2002, enacted to counter Enron-type company misdeeds, basically tightened company regulation by way of strict financial disclosure, internal control, and auditing, and executive responsibility. The legislation mandates CEOs and CFOs to sign personally to the accuracy of financial reports, enhances the audit committee's role, and safeguards informants [38]. Australian Corporate Governance Principles, as provided by the Australian Stock Exchange (ASX), place special importance on transparency, independent boards, and accountability within listed corporations [39].

The principles invite companies to reveal their governance procedures and make boards operate with a twin mandate of shareholder value and ethical issues, with a focus on risk management and open decision-making procedures. These frameworks together constitute the basis of international corporate governance standards to promote the integrity and effectiveness of markets [40]. The King IV Report is an integrated South African corporate governance code. It is ethical, sustainable, and stakeholder-focused [41].

It is an integrated approach and aligns corporate governance with corporate social responsibility and sustainable business practice [42]. Besides, the Tokyo Stock Exchange brought in the Corporate Governance Code for Japanese companies to enhance the quality of corporate governance in Japan [43]. It aims to foster accountability, transparency, and long-term shareholder value. Similarly, Oman was the GCC nation to institute a Corporate Governance Code, which was inaugurated in 2002 by the Muscat Stock Exchange (MSX) under the name Muscat Securities Market (MSM). Originally based on ten principles, the code was updated in 2010 and 2016. The current code is built upon fourteen principles, aimed at enhancing transparency, and accountability, and safeguarding the rights of shareholders in Oman's capital market [24]. In the world, each country has devised its own set of codes and corporate governance practices that are suitable for its individual market environment, laws, economic conditions, and cultural orientation.

There are also international guidelines and standards, such as those by the OECD and International Finance Corporation (IFC), but each country adapts the practice of governance according to its needs [44].

The overall aim of all the codes is to promote transparency and accountability, protect shareholders' rights, and promote long-term sustainable development in their respective economies.

5. Findings and Discussions

Good governance has numerous benefits that contribute to the overall success and sustainability of an organization. Good governance enhances efficiency by maintaining consistency in operations and decision-making, enhancing overall productivity. Good governance is founded on transparency and visibility of mistakes, through which organizations are able to detect and correct problems immediately, thereby minimizing mistakes and maximizing performance [1]. It also ensures smooth working, as members of the board can communicate and collaborate, thus having cohesion and unity. Its other significant strength is the development of a sound reputation for the organization. With ethical behavior and the display of accountability, business organizations can secure stakeholders' confidence, such as investors, consumers, and workers [8].

Besides, good governance allows an organization to better respond to external challenges like regulatory adjustments and market trends. It provides that the organization is properly governed, compliant with the law, and in a position to adapt to new circumstances. Generally speaking, the foundations of good governance—accountability, transparency, fairness, responsibility, and risk management- make an effective building which enables long-term success and resilience [4].

The adoption of corporate governance has a number of challenges, especially in the complex settings of contemporary businesses. A key challenge is the management of the increasingly intricate regulatory environment, which calls for organizations to remain current with multifaceted and changing regulations across various geographies [45]. Transparency and accountability on the board are also important, with stakeholders calling for greater levels of transparency and the incorporation of environmental, social, and governance objectives in addition to financial performance. Maintaining consistent internal controls and detailed documentation is required but expensive. Continuing education and training of board members and management are necessary to keep up with the current governance

ISSN: 2576-8484
Vol. 9, No. 9: 1462-1470, 2025
DOI: 10.55214/2576-8484.v9i9.10154

standards and regulatory changes, which may be challenging for poor-resource organizations [36]. Resistance to organizational and cultural change in governance is generally a result of lack of appreciation for benefits, fear, or vested interest, and is overcome by effective communication and effective leadership.

Integration of technology into governance practices offers more efficiency and transparency but requires enormous investment and technical skill [3]. Finally, coordinating the interests of various stakeholders, including shareholders, workers, customers, and the general public, must be done, but has proved to be challenging due to the existence of contradictory interests and agendas [46]. Overcoming these challenges requires a comprehensive strategy, including investment in compliance management systems, the creation of a culture of transparency and accountability, and ongoing education and training for board members and management. This way, organizations can enhance their governance practices and achieve long-term success.

6. Conclusion

Corporate governance is the backbone of good corporate management and sustainable economic growth, particularly for developing nations. It has been the aim of this research paper to describe how corporate governance plays a firm role in promoting economic stability, foreign investment, and shareholder rights. Agency theory, stewardship theory, stakeholder theory, and resource dependence theory provide insightful accounts of the mechanisms and principles underlying good corporate governance. These theories assist in designing governance structures that align managers', shareholders', and other stakeholders' interests in transparent, accountable, and fair ways. Company codes of governance and guidelines created other financial collapses with policy and practice guideline models to evaluate smooth operations and economic progress of the country. Effective company codes of good standards sustain shareholder faith by inspiring improved levels of responsibility and accountability, restricting opportunities for fraud and misappropriation. With the increasingly integrated world economy and emerging economies, business practices of corporate governance will be integral to their competitiveness and sustainable success.

Transparency:

The authors confirm that the manuscript is an honest, accurate, and transparent account of the study; that no vital features of the study have been omitted; and that any discrepancies from the study as planned have been explained. This study followed all ethical practices during writing.

Acknowledgment:

This paper is a partial outcome of the research project titled "Understanding the Role and Influence of the Implementation of Corporate Governance on Oman's Economy – AOU_OM/2023/FBS1", funded by the Arab Open University, Sultanate of Oman.

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