



 Research Article

ESG Governance Metrics and Market Valuation in Emerging Financial Markets

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 **Yewande Kolade**
University of Chicago, USA

ABSTRACT

This paper examines the relationship between environmental, social, and governance (ESG) metrics, particularly governance mechanisms, and market valuation in emerging financial markets. Drawing on empirical evidence from previous studies across multiple emerging economies and foundational work by Ogundipe (2019) on Nigerian deposit money banks, this research synthesizes findings on how board characteristics, ownership structures, and regulatory contexts influence firm value. A critical distinction emerges between substantive governance, characterized by active board oversight, meeting frequency, and stakeholder engagement, and symbolic governance, which involves formal compliance structures without demonstrable monitoring intensity. Evidence indicates that markets in emerging economies reward observable governance actions rather than merely stated independence, with board diligence, gender diversity, and sustainability committees showing consistent positive associations with firm valuation. However, the governance pillar of ESG demonstrates more mixed effects compared to environmental and social dimensions, suggesting context-dependent valuation impacts. Ownership concentration, regulatory reforms, and industry-specific factors moderate these relationships. The findings have significant implications for corporate boards seeking to enhance market value, investors incorporating governance diagnostics into valuation models, and policymakers designing disclosure frameworks that emphasize auditable governance intensity over formal compliance checklists.

KEYWORDS

Governance, market valuation, financial markets, gender diversity, ESG.

1. INTRODUCTION

The integration of environmental, social, and governance (ESG) considerations into corporate strategy and investment decision-making has accelerated dramatically over the past decade. While considerable research has examined ESG performance in developed markets, emerging financial markets present distinct institutional, regulatory, and informational contexts that shape how governance mechanisms influence firm valuation. Understanding these dynamics is critical for multiple stakeholders: corporate boards seeking to optimize governance structures, investors allocating capital across frontier markets, and policymakers designing regulatory frameworks that enhance market integrity. The governance dimension of ESG, encompassing board composition, ownership structures, executive compensation, and shareholder rights, occupies a unique position in the ESG framework. Unlike environmental and social metrics, which often reflect operational outcomes or stakeholder impacts, governance metrics describe the internal control architecture through which firms make strategic decisions and allocate resources. Consequently, governance quality serves both as a direct determinant of firm performance and as a moderating factor that influences how effectively firms translate environmental and social initiatives into value creation.

Recent empirical work has revealed a critical distinction between what Ogundipe (2019) termed "substantive" versus "symbolic" governance. Substantive governance involves active, observable oversight mechanisms, such as frequent board meetings, engaged committee work, and demonstrable stakeholder engagement, that signal credible monitoring to external investors. Symbolic governance, by contrast, consists of formal

compliance structures, such as stated board independence ratios or the existence of governance committees, without accompanying evidence of monitoring intensity. Ogundipe's (2019) study of Nigerian deposit money banks demonstrated that markets discriminate between these governance types, rewarding board diligence while showing indifference to formal independence measures that lack observable action. This distinction carries profound implications for emerging markets, where information asymmetries are typically more severe, regulatory enforcement may be weaker, and institutional investors often lack the resources to conduct deep due diligence on governance quality. In such environments, observable governance signals become particularly valuable as low-cost proxies for monitoring credibility. The conceptual framework linking ESG governance metrics to market valuation outcomes in emerging markets is illustrated in Figure 1, which depicts how board characteristics, ownership structure, and regulatory environment jointly influence the relationship between governance mechanisms and firm value.

Research Objectives

This paper pursues three primary objectives. First, it synthesizes empirical evidence from 2021-2022 studies examining ESG governance metrics and firm valuation across emerging markets, identifying consistent patterns and contextual variations. Second, it develops a theoretical framework integrating agency theory, stakeholder theory, and signaling theory to explain why and how governance mechanisms influence market valuation differently in emerging versus developed markets. Third, it articulates the substantive-symbolic governance distinction and examines its empirical support, drawing particularly on Ogundipe's (2019) foundational work and subsequent

studies that have explored governance intensity versus formal compliance.

Significance

This research contributes to the literature in several ways. It addresses a geographic gap by focusing on emerging markets, which remain underrepresented in ESG governance research despite their growing importance in global capital markets. It advances theoretical understanding by explicating mechanisms through which governance structures translate into valuation outcomes under conditions of high information asymmetry and weak institutional enforcement. It provides actionable insights for practitioners by identifying which governance metrics carry valuation weight in emerging market contexts. Finally, it informs policy design by highlighting the limitations of compliance-focused governance regulations and the potential value of disclosure requirements that emphasize observable governance intensity.

2. Literature Review

2.1 ESG Governance and Firm Value

The relationship between corporate governance and firm value has been a central concern in finance and management research for decades. Traditional governance research, rooted in agency theory, emphasized structural mechanisms, such as board independence, separation of CEO and board chair roles, and ownership concentration, as tools for aligning managerial incentives with shareholder interests. The integration of governance into the broader ESG framework has expanded this focus to encompass stakeholder considerations, sustainability oversight, and long-term value creation beyond short-term financial metrics. Recent meta-analyses and

systematic reviews have documented generally positive associations between aggregate ESG performance and firm valuation, though the strength and consistency of these relationships vary considerably across contexts. The governance pillar, specifically, has shown more mixed results compared to environmental and social dimensions. Some studies report positive associations between governance quality and market-to-book ratios or Tobin's Q, while others find weak or non-significant effects, particularly when governance is measured through formal structural indicators rather than behavioral or outcome-based metrics. Yu and Xiao (2022) developed a new ESG scoring approach for Chinese enterprises and found that while environmental and social performance consistently enhanced firm value, the governance pillar's incremental effect was less robust across robustness checks. Similarly, Zheng et al. (2022) analyzed ESG performance from a stakeholders' perspective and documented that environmental and social pillars contributed more consistently to corporate value than governance metrics. These findings suggest that the governance-value relationship may be more context-dependent and measurement-sensitive than relationships involving environmental or social performance.

2.2 Market Valuation in Emerging Markets

Emerging financial markets are characterized by several features that distinguish them from developed markets and potentially alter how governance mechanisms influence valuation. These features include higher information asymmetry, weaker legal and regulatory enforcement, greater ownership concentration, less developed institutional investor bases, and higher macroeconomic volatility. Each of these characteristics shapes the information environment in which investors assess governance

quality and incorporate governance signals into valuation decisions. Ogundipe (2019) examined corporate governance mechanisms and firm value in Nigerian deposit money banks, providing foundational evidence on how governance structures influence market valuation in a frontier African market. The study revealed that markets in this context discriminate between governance mechanisms based on their observability and credibility as monitoring signals. Board size and meeting frequency, both publicly observable indicators of governance intensity, showed significant positive associations with market price per share, while formal board independence failed to command a valuation premium. This pattern suggests that in environments where investors cannot directly audit board effectiveness, they rely on low-cost observable proxies for governance credibility.

The Nigerian banking context examined by Ogundipe (2019) is particularly instructive because the sector experienced recurrent macroeconomic shocks and regulatory interventions, creating conditions where governance quality became highly salient to investors. Banking leverage magnifies the costs of monitoring failures, and equity prices in this sector reflect governance signals at high frequency. The finding that CEO duality, typically viewed as a governance weakness in agency theory, showed a positive association with firm value in this context underscores the importance of institutional and economic contingencies in shaping governance-value relationships.

2.3 The Emerging Markets Context

Empirical evidence from 2021-2022 studies across multiple emerging markets reveals both common patterns and important contextual variations. Disli et al. (2022) conducted a multi-country panel study of emerging markets using dynamic panel methods and

found that board characteristics, particularly independence and gender diversity, were positively associated with sustainability performance. Wu et al. (2022) examined Chinese listed companies and documented that ownership structure moderates the ESG-value relationship, with state-owned enterprises sometimes showing stronger enhancement effects from ESG performance than privately-owned firms. Geographic heterogeneity is substantial. Studies from China, India, Malaysia, Saudi Arabia, Indonesia, and ASEAN countries report varying patterns in how governance mechanisms influence ESG disclosure and firm value. Chebbi and Ammer (2022) found that corporate governance reforms in Saudi Arabia strengthened the positive association between board composition features and ESG disclosure, suggesting that regulatory interventions can enhance the credibility of governance signals. Kamaludin et al. (2022) examined Malaysian firms and documented positive associations between board diversity and ESG performance, while Batra et al. (2022) found similar patterns in Indian companies, where board factors and gender diversity influenced ESG disclosure scores. However, not all emerging market evidence is uniformly positive. Prabawati and Rahmawati (2022) reported a negative relationship between ESG scores and Tobin's Q in ASEAN member countries, indicating that country-level institutional differences or measurement issues may produce contrasting results. This heterogeneity underscores the importance of contextual analysis and suggests that governance-value relationships cannot be assumed to be universal across all emerging markets. As shown in Figure 3, emerging markets exhibit varied patterns in ESG-value relationships, governance mechanism effectiveness, and market-specific factors that influence how governance translates into valuation outcomes.

3. Theoretical Framework

3.1 Agency Theory

Agency theory provides the foundational framework for understanding corporate governance mechanisms and their relationship to firm value. The theory posits that separation of ownership and control creates agency costs arising from divergent interests between principals (shareholders) and agents (managers). Governance mechanisms, including board independence, monitoring intensity, executive compensation structures, and ownership concentration, serve to align managerial incentives with shareholder interests and reduce agency costs. In the context of emerging markets, agency problems may be particularly acute due to weaker legal protections for minority shareholders, less developed markets for corporate control, and limited institutional investor activism. However, the specific governance mechanisms that effectively mitigate agency costs may differ from those in developed markets. Ogundipe (2019) documented that CEO duality, typically viewed as an agency problem because it concentrates power and weakens board independence, showed a positive association with firm value in Nigerian banks. This finding challenges universal prescriptions derived from agency theory and suggests that in volatile, highly regulated environments, unified leadership may provide coordination benefits that outweigh traditional monitoring concerns.

The agency theory framework also helps explain why observable governance intensity matters more than formal structural independence in emerging markets. When external investors cannot directly monitor managerial behavior or board effectiveness, they rely on credible signals of monitoring intensity. Board meeting frequency, committee activity, and other observable governance actions serve as low-cost signals that boards are actively engaged in oversight,

thereby reducing perceived agency costs and supporting higher valuations.

3.2 Stakeholder Theory

Stakeholder theory expands the governance framework beyond shareholder-manager relationships to encompass multiple stakeholder groups, including employees, customers, suppliers, communities, and regulators, whose interests and actions influence firm performance. From this perspective, effective governance involves balancing competing stakeholder claims and building legitimacy with diverse constituencies. ESG performance, particularly in environmental and social dimensions, reflects how well firms manage stakeholder relationships and address stakeholder concerns. Zheng et al. (2022) explicitly analyzed ESG performance from a stakeholders' perspective and found that stakeholder engagement, media attention, and analyst coverage mediate the relationship between ESG performance and corporate value. This finding supports the stakeholder theory proposition that firms derive value from managing stakeholder relationships effectively. Governance mechanisms that facilitate stakeholder engagement, such as sustainability committees, stakeholder advisory boards, and transparent disclosure practices, may enhance firm value by building trust, reducing reputational risks, and improving access to critical resources. In emerging markets, stakeholder dynamics may differ significantly from developed markets. Regulatory relationships are often more critical, community and political stakeholders may wield greater influence, and labor and environmental standards may be evolving rapidly. Governance structures that signal responsiveness to these stakeholder concerns, such as board diversity, sustainability committees, and robust disclosure

practices, may carry particular valuation weight in emerging market contexts.

3.3 Signaling Theory

Signaling theory provides a complementary framework for understanding how governance mechanisms influence market valuation under conditions of information asymmetry. The theory posits that firms use observable actions to signal unobservable quality to external parties. In the governance context, firms cannot directly communicate board effectiveness or managerial integrity to investors, but they can signal governance quality through observable structural and behavioral indicators. Ogundipe (2019) explicitly invoked signaling theory to explain why board meeting frequency carries valuation weight in Nigerian banks. Investors cannot audit the content of board deliberations or directly observe board effectiveness, but meeting frequency serves as a credible signal of governance intensity because it is publicly disclosed, costly to fake, and correlated with actual monitoring effort. Similarly, the establishment of sustainability committees, as documented by Makeeva et al. (2022) in Russian companies, signals commitment to ESG oversight and may enhance market value by reducing information asymmetry about governance quality.

The signaling framework helps explain the substantive-symbolic governance distinction. Symbolic governance, such as formal independence ratios without accompanying evidence of board activity, fails to serve as a credible signal because it is easy to achieve through cosmetic compliance without genuine monitoring effort. Substantive governance, characterized by observable actions such as meeting frequency, committee activity, and stakeholder engagement, provides a more credible signal because these actions are costly, verifiable, and more difficult

to fake. Markets rationally discriminate between these signal types, rewarding substantive governance while discounting symbolic compliance. The theoretical framework integrating these three perspectives is depicted in Figure 1, which shows how ESG governance metrics influence market valuation outcomes through mechanisms described by agency theory (reducing agency costs), stakeholder theory (building legitimacy and managing stakeholder relationships), and signaling theory (reducing information asymmetry). Ownership structure and regulatory environment moderate these relationships by altering the relative importance of different governance mechanisms and the credibility of governance signals.

4. Empirical Evidence from Emerging Markets

4.1 ESG Performance and Valuation Outcomes

Empirical studies from 2021-2022 provide substantial evidence on the relationship between ESG performance and firm valuation in emerging markets, though results vary considerably across contexts and methodologies. Multiple studies report positive associations between aggregate ESG scores and market valuation measures such as Tobin's Q, market-to-book ratio, and stock returns. Yu and Xiao (2022) analyzed Chinese A-share firms using a new ESG scoring approach and found that composite ESG performance improved firm value, with environmental and social pillars contributing more consistently than governance. Zheng et al. (2022) similarly documented positive associations between ESG performance and corporate value in Chinese firms, with media attention and analyst coverage serving as mediating mechanisms. The pattern of stronger effects for environmental and social pillars compared to governance is consistent across multiple studies. Dong and Baek (2022) examined the effect of ESG ratings on Chinese listed companies and found positive

associations with firm value, though the governance component showed weaker effects than environmental and social dimensions. This pattern may reflect measurement challenges, governance is often assessed through formal structural indicators that may not capture actual monitoring effectiveness, or genuine differences in how markets value different ESG dimensions.

Ownership structure emerges as an important moderator of ESG-value relationships. Wu et al. (2022) specifically examined how ownership structure moderates the impact of ESG performance on firm value in Chinese companies. The study found that state ownership, institutional ownership, and ownership concentration all influence the strength and direction of ESG-value relationships. State-owned enterprises sometimes showed stronger positive effects from ESG performance, possibly because ESG initiatives align with government policy priorities and enhance political legitimacy. Conversely, firms with concentrated private ownership showed weaker ESG-value relationships, potentially because controlling shareholders internalize fewer stakeholder concerns. Industry and pollution exposure also moderate ESG-value relationships. Studies from China indicate that firms in heavy-polluting industries show weaker positive effects from environmental performance, possibly because investors view environmental initiatives in these sectors as compliance-driven rather than value-creating. Conversely, firms in sectors with high stakeholder visibility, such as consumer goods, financial services, and technology, show stronger positive associations between ESG performance and valuation.

4.2 Geographic and Sectoral Patterns

Geographic heterogeneity in ESG-value relationships across emerging markets is substantial and reflects

differences in institutional development, regulatory frameworks, and market maturity. Studies from Asian emerging markets, particularly China, India, Malaysia, and Indonesia, generally report positive associations between ESG performance and firm value, though the strength of these relationships varies. Naeem and Ullah (2022) examined multiple emerging countries and found that ESG practices positively impact firm performance, while Naeem et al. (2022) documented positive capital market responses to ESG practices in emerging economies. However, not all emerging market evidence is uniformly positive. Prabawati and Rahmawati (2022) reported a negative relationship between ESG scores and firm value in ASEAN member countries, contrasting with positive findings from other Asian studies. This discrepancy may reflect differences in ESG measurement approaches, sample composition, or country-specific institutional factors. The ASEAN region encompasses countries with widely varying levels of economic development, regulatory sophistication, and market maturity, which may produce heterogeneous ESG-value relationships.

Evidence from Middle Eastern and African emerging markets is more limited but suggests important contextual differences. Chebbi and Ammer (2022) found that board composition influences ESG disclosure in Saudi Arabia, with corporate governance reforms strengthening these relationships. Ogundipe's (2019) study of Nigerian banks revealed that governance mechanisms influence firm value, but the specific mechanisms that matter, board diligence rather than formal independence, differ from patterns typically observed in developed markets. These findings underscore the importance of institutional context in shaping governance-value relationships. Sectoral patterns also emerge from the literature. Financial services firms, particularly banks, show strong governance-value relationships, likely because

banking leverage magnifies the costs of governance failures and because banks face intensive regulatory oversight that makes governance quality particularly salient. Adu (2022) examined sustainable banking initiatives and found that environmental disclosure and financial performance are positively related, with corporate governance mechanisms serving as moderators. Manufacturing firms in pollution-intensive industries show more complex patterns, with environmental performance sometimes showing weak or negative associations with short-term financial metrics but positive associations with long-term valuation measures.

5. The Role of Governance Mechanisms

5.1 Board Characteristics and Firm Value

Board characteristics, including independence, size, diversity, and activity—represent the most extensively studied governance mechanisms in the ESG literature. Empirical evidence from emerging markets reveals consistent patterns for some board attributes and more mixed results for others. Board independence, long emphasized in corporate governance codes and regulatory frameworks, shows surprisingly mixed associations with firm value and ESG performance in emerging market contexts. Ogundipe (2019) found that board independence failed to show significant associations with firm value in Nigerian banks, while board size and meeting frequency demonstrated strong positive effects. This pattern suggests that formal independence without accompanying monitoring intensity fails to reassure investors in environments characterized by high information asymmetry and weak institutional enforcement. Makeeva et al. (2022) examined Russian companies and similarly found that board independence showed weaker associations with firm value compared to other board characteristics, while the establishment of

sustainability committees demonstrated positive effects.

Board size shows non-linear relationships with firm value in several studies. Makeeva et al. (2022) documented that larger boards were sometimes negatively associated with firm value, consistent with coordination costs and free-rider problems in large boards. However, Ogundipe (2019) found positive associations between board size and firm value in Nigerian banks, arguing that larger boards mobilize diverse expertise and regulatory literacy that are particularly valuable in complex, highly regulated environments. These contrasting findings suggest that optimal board size may be context-dependent, varying with firm complexity, regulatory intensity, and the availability of qualified directors. Gender diversity on boards shows consistently positive associations with ESG performance and disclosure across multiple emerging market studies. Disli et al. (2022) found that gender diversity positively influences sustainability performance in emerging markets, while Batra et al. (2022) documented that gender diversity enhances ESG disclosure scores in Indian companies. Kamaludin et al. (2022) reported similar patterns in Malaysian firms. These findings align with broader literature suggesting that gender diversity enhances board deliberation quality, stakeholder orientation, and attention to non-financial risks.

Board activity, measured through meeting frequency and committee engagement, emerges as a particularly robust predictor of firm value and ESG performance. Ogundipe (2019) found that board meeting frequency showed significant positive associations with market price per share in Nigerian banks, serving as a credible signal of governance intensity. Disli et al. (2022) similarly documented that board activity reduces ESG controversies in emerging markets, consistent with

more intensive monitoring. These findings support the substantive governance thesis: observable board actions carry more valuation weight than formal structural indicators because they provide credible signals of monitoring effort.

5.2 Ownership Structure as a Moderator

Ownership structure plays a critical moderating role in how governance mechanisms influence firm value in emerging markets. Concentrated ownership, common in many emerging economies, creates both monitoring benefits, through reduced free-rider problems and stronger incentives for large shareholders to monitor management, and potential costs through expropriation of minority shareholders and reduced board independence. Wu et al. (2022) explicitly examined ownership structure as a moderator of ESG-value relationships in Chinese firms. The study found that state ownership strengthens the positive association between ESG performance and firm value, possibly because state-owned enterprises face political pressures to demonstrate ESG leadership and because ESG initiatives align with government policy priorities. Institutional ownership also moderates ESG-value relationships, with higher institutional ownership associated with stronger positive effects from ESG performance, likely because institutional investors have greater capacity to monitor ESG practices and incorporate ESG factors into valuation models. Fuadah et al. (2022) examined how ownership structure influences the relationship between ESG disclosure and firm value in Indonesian companies, with audit committees serving as a moderating variable. The study found that ownership concentration influences the effectiveness of governance mechanisms, with more concentrated ownership sometimes weakening the positive association between ESG disclosure and firm performance. This pattern may reflect reduced

market discipline when controlling shareholders dominate governance processes.

Family ownership, prevalent in many emerging markets, shows complex relationships with governance quality and firm value. Family-controlled firms may demonstrate longer time horizons and stronger stakeholder orientation, potentially enhancing ESG performance. However, family ownership may also reduce board independence and limit the effectiveness of formal governance mechanisms. The net effect appears to vary across contexts, with some studies reporting positive associations between family ownership and ESG performance while others find negative or non-significant relationships.

5.3 Regulatory Context and Reforms

Regulatory frameworks and governance reforms significantly influence how governance mechanisms translate into firm value in emerging markets. Mandatory governance codes, disclosure requirements, and regulatory enforcement shape both the supply of governance information available to investors and the credibility of governance signals. Chebbi and Ammer (2022) examined how corporate governance reforms in Saudi Arabia influenced the relationship between board composition and ESG disclosure. The study found that governance reforms strengthened the positive association between board size and independence and ESG disclosure, suggesting that regulatory interventions can enhance the credibility and effectiveness of governance mechanisms. Regulatory reforms that mandate specific governance structures, such as minimum board independence ratios, gender diversity requirements, or sustainability committee establishment, may produce symbolic compliance without substantive governance improvement if

enforcement is weak or if firms can satisfy requirements through cosmetic changes. Conversely, reforms that emphasize disclosure of governance processes and activities—such as mandatory reporting of board meeting attendance, committee activities, and director qualifications—may enhance the credibility of governance signals by making governance intensity more observable to investors.

Temiz and Özdemir (2022) examined the role of boards of directors on ESG disclosure in emerging markets and found that regulatory context influences the strength of board-disclosure relationships. In markets with stronger regulatory frameworks and enforcement, board characteristics showed more consistent associations with ESG disclosure quality. This pattern suggests that regulatory credibility amplifies the effectiveness of governance mechanisms by increasing the costs of symbolic compliance and enhancing the reliability of disclosed governance information. Industry-specific regulation also shapes governance-value relationships. Financial services firms face intensive prudential regulation that makes governance quality particularly salient and that provides regulators with tools to enforce governance standards. Ogundipe (2019) noted that Nigerian banks operate in a highly regulated environment where governance failures can trigger regulatory intervention, making governance quality especially important to investors. Conversely, firms in less regulated industries may face weaker external discipline, potentially reducing the valuation impact of governance mechanisms.

6. Substantive vs Symbolic Governance

6.1 Conceptual Distinction

The distinction between substantive and symbolic governance represents a critical insight for understanding how governance mechanisms influence

market valuation, particularly in emerging markets characterized by high information asymmetry and weak institutional enforcement. Substantive governance refers to active, observable oversight mechanisms that demonstrate genuine monitoring effort and stakeholder engagement. Symbolic governance, by contrast, consists of formal compliance structures that satisfy regulatory requirements or governance code recommendations without accompanying evidence of monitoring intensity or board effectiveness. Ogundipe (2019) articulated this distinction in analyzing Nigerian banks and argued that markets discriminate between governance types based on their credibility as signals of monitoring quality. Substantive governance is characterized by visible, enacted supervision—including frequent board meetings, active committee oversight, transparent stakeholder engagement, and observable director qualifications and expertise. These features are publicly verifiable through mandatory disclosures, costly to fake, and correlated with actual monitoring effort. Consequently, they serve as credible signals of governance quality that investors can incorporate into valuation decisions.

Symbolic governance, by contrast, involves formal structures without demonstrable action. Board independence ratios, the existence of governance committees, or stated adherence to governance codes may satisfy regulatory requirements but provide little information about actual monitoring effectiveness if they are not accompanied by observable governance intensity. Ogundipe (2019) described such governance as structurally "thin", formally compliant but lacking the behavioral substance that reassures investors about monitoring credibility. The substantive-symbolic distinction is illustrated in Figure 2, which contrasts the characteristics and valuation impacts of these governance types. Substantive governance,

characterized by board meeting frequency, active committee oversight, and stakeholder engagement, demonstrates positive valuation impact because it provides credible signals of monitoring quality. Symbolic governance, characterized by formal independence, checkbox compliance, and disclosure-only approaches—shows weak or no valuation impact because it fails to provide credible information about actual governance effectiveness.

6.2 Empirical Evidence on Governance Intensity

Empirical evidence from emerging markets provides substantial support for the proposition that governance intensity matters more than formal structural compliance. Ogundipe (2019) found that board meeting frequency showed significant positive associations with market price per share in Nigerian banks, while formal board independence failed to achieve statistical significance. This pattern directly supports the substantive governance thesis: investors reward observable governance actions that signal monitoring intensity rather than formal structural indicators that may reflect symbolic compliance. The positive valuation effect of board meeting frequency documented by Ogundipe (2019) is particularly instructive because meeting frequency is a low-cost, publicly observable signal that investors can verify through annual report disclosures. Unlike board independence, which requires investors to assess director relationships and potential conflicts of interest, meeting frequency provides a simple, verifiable indicator of board engagement. Ogundipe (2019) argued that in environments where investors cannot audit the content of board deliberations, they rationally rely on such observable proxies for governance credibility.

Board size also serves as a governance intensity signal in some contexts. Ogundipe (2019) found that larger

boards were positively associated with firm value in Nigerian banks, contrary to conventional wisdom that smaller boards are more effective due to reduced coordination costs. The positive effect of board size in this context may reflect the value of diverse expertise and regulatory literacy in complex, highly regulated banking environments. Larger boards can mobilize broader networks, deeper technical knowledge, and greater capacity for committee work, all of which may enhance monitoring effectiveness in demanding governance environments. The establishment of sustainability committees represents another form of substantive governance that signals commitment to ESG oversight. Makeeva et al. (2022) found that Russian companies with sustainability committees demonstrated higher ESG rankings and firm value compared to companies without such committees. The committee's existence provides a visible signal of organizational commitment to sustainability governance, while committee activities, such as meeting frequency, reporting relationships, and integration with board oversight, provide additional signals of governance intensity.

6.3 Market Discrimination Between Governance Types

The evidence that markets discriminate between substantive and symbolic governance has important implications for understanding governance-value relationships in emerging markets. This discrimination reflects rational investor behavior under conditions of information asymmetry: when investors cannot directly observe governance quality, they rely on credible signals that are costly to fake and correlated with actual monitoring effectiveness. Governance mechanisms that provide such signals command valuation premiums, while mechanisms that can be satisfied through cosmetic compliance fail to influence valuation. Ogundipe's (2019) finding that CEO duality

showed positive associations with firm value in Nigerian banks, contrary to agency theory predictions, further illustrates market discrimination based on context-specific governance effectiveness. In volatile, highly regulated environments, unified leadership may provide coordination benefits and decisiveness that outweigh traditional monitoring concerns. Markets appear to recognize these contextual contingencies and price governance structures based on their effectiveness in specific institutional environments rather than applying universal prescriptions derived from developed market contexts.

The mixed results for board independence across emerging market studies reflect similar dynamics. Board independence may fail to command valuation premiums in emerging markets because formal independence, measured through director classifications and stated relationships, can be achieved through symbolic compliance without genuine monitoring independence. Directors may be formally independent according to regulatory definitions while maintaining informal relationships, economic dependencies, or social ties that compromise their monitoring effectiveness. In the absence of strong institutional enforcement and director liability regimes, formal independence provides a weak signal of actual monitoring quality. Gender diversity, by contrast, shows more consistent positive associations with ESG performance and firm value across emerging markets. This pattern may reflect that gender diversity is more difficult to achieve through symbolic compliance, it requires actual recruitment and retention of qualified women directors, and that diverse boards demonstrate observable differences in deliberation processes, stakeholder orientation, and attention to non-financial risks. Consequently, gender diversity serves as a more

credible signal of governance quality than formal independence measures.

7. Implications for Practice and Policy

7.1 Implications for Corporate Boards

The evidence on substantive versus symbolic governance carries direct implications for corporate boards seeking to enhance market valuation through governance improvements. Boards should recognize that markets discriminate between visible, enacted governance and merely stated governance structures. Governance should be strategically managed with attention to how governance actions are perceived by external investors, particularly in emerging market contexts where information asymmetry is high and institutional enforcement is weak. Boards should prioritize observable governance intensity over formal compliance. Increasing board meeting frequency, enhancing committee activity, improving director attendance and engagement, and transparently disclosing governance processes provide credible signals of monitoring quality that investors can verify and incorporate into valuation decisions. Ogundipe (2019) demonstrated that board meeting frequency carries valuation weight in Nigerian banks, suggesting that boards can enhance market value through visible increases in governance intensity. Board composition decisions should emphasize substantive qualifications and diversity rather than merely satisfying formal independence requirements. Gender diversity, industry expertise, regulatory literacy, and stakeholder representation enhance board effectiveness and provide credible signals of governance quality. Boards should ensure that independence is genuine rather than merely formal, with independent directors possessing the expertise, resources, and incentives to engage in effective monitoring.

Establishing sustainability committees and integrating ESG oversight into board processes signals organizational commitment to stakeholder governance and long-term value creation. Makeeva et al. (2022) found that sustainability committees enhance firm value in Russian companies, suggesting that visible organizational structures for ESG governance carry valuation weight. However, committees must be substantive rather than symbolic—they should meet regularly, have clear mandates and reporting relationships, and demonstrably influence corporate strategy and risk management.

Boards should also recognize that governance effectiveness is context-dependent. The positive association between CEO duality and firm value documented by Ogundipe (2019) in Nigerian banks challenges universal prescriptions for separating CEO and board chair roles. Boards should assess governance structures based on their effectiveness in specific institutional, regulatory, and competitive contexts rather than mechanically applying governance codes developed for different environments.

7.2 Implications for Investors

Investors allocating capital across emerging markets should incorporate governance diagnostics into valuation models, recognizing that governance quality influences both firm performance and risk. However, investors should focus on substantive governance indicators, such as board activity, committee engagement, director qualifications, and observable stakeholder engagement, rather than relying solely on formal structural measures that may reflect symbolic compliance. The evidence that environmental and social pillars show more consistent positive associations with firm value than governance in

emerging markets suggests that investors should adopt a holistic ESG approach rather than focusing narrowly on governance structures. Yu and Xiao (2022) and Zheng et al. (2022) both found that environmental and social performance contributed more consistently to firm value than governance in Chinese firms. This pattern may reflect measurement challenges for governance or genuine differences in how markets value different ESG dimensions. Investors should recognize that ownership structure moderates ESG-value relationships and should adjust valuation models accordingly. Wu et al. (2022) documented that state ownership, institutional ownership, and ownership concentration all influence the strength of ESG-value relationships in Chinese firms. Investors should assess how ownership structure influences governance effectiveness, stakeholder orientation, and the credibility of ESG commitments in specific firms and contexts.

Investors should also attend to regulatory context and governance reforms when assessing governance quality. Chebbi and Ammer (2022) found that corporate governance reforms in Saudi Arabia strengthened the relationship between board composition and ESG disclosure, suggesting that regulatory interventions can enhance governance credibility. Investors should monitor regulatory developments and assess how reforms influence the reliability of governance signals and the effectiveness of governance mechanisms. Finally, investors should recognize geographic and sectoral heterogeneity in ESG-value relationships across emerging markets. The contrasting findings from different Asian emerging markets, with some studies reporting positive ESG-value relationships and others finding negative or non-significant associations underscore the importance of country-specific and sector-specific analysis. Investors should avoid assuming that governance-value

relationships observed in one emerging market generalize to others and should conduct context-specific due diligence on governance quality.

7.3 Implications for Policymakers and Regulators

Policymakers and regulators designing governance frameworks for emerging markets should recognize the limitations of compliance-focused regulations that emphasize formal structural requirements without ensuring substantive governance intensity. Ogundipe (2019) demonstrated that formal board independence fails to command valuation premiums in Nigerian banks, while observable governance intensity, measured through meeting frequency, shows strong positive associations with firm value. This pattern suggests that regulatory frameworks should emphasize disclosure of governance processes and activities rather than merely mandating formal structural compliance. Mandatory disclosure requirements should focus on making governance intensity observable and verifiable. Requirements to disclose board meeting attendance, committee activities, director qualifications and expertise, and governance process details provide investors with information about substantive governance quality that formal structural indicators fail to capture. Such disclosures are relatively low-cost for firms to provide but highly valuable for investors seeking to assess governance credibility. Regulators should also consider how governance reforms interact with ownership structures and institutional contexts. Wu et al. (2022) documented that ownership structure moderates ESG-value relationships, suggesting that governance regulations should account for ownership concentration, state ownership, and family control patterns that vary across emerging markets. One-size-fits-all governance codes imported from developed markets may fail to address the specific agency

problems and governance challenges that characterize emerging market firms.

Regulatory frameworks should support the development of institutional infrastructure that enhances governance credibility. This includes strengthening director liability regimes, enhancing shareholder rights and enforcement mechanisms, developing director training and certification programs, and supporting the growth of institutional investors who can engage in active governance monitoring. Chebbi and Ammer (2022) found that corporate governance reforms in Saudi Arabia strengthened board-disclosure relationships, suggesting that comprehensive regulatory interventions can enhance governance effectiveness. Regulators should recognize that governance quality serves as both a direct determinant of firm performance and a moderating factor that influences how effectively firms translate ESG initiatives into value creation. Adu (2022) found that corporate governance mechanisms moderate the relationship between environmental disclosure and financial performance in banks. This suggests that governance regulation should be integrated with broader ESG regulatory frameworks rather than treated as a separate compliance domain.

8. Conclusion

This paper has synthesized empirical evidence from emerging financial markets on the relationship between ESG governance metrics and market valuation, with particular emphasis on the critical distinction between substantive and symbolic governance. Drawing on foundational work by Ogundipe (2019) and recent studies from 2021-2022 across multiple emerging economies, the analysis reveals several key findings with important implications for theory, practice, and policy. First,

governance mechanisms influence firm value in emerging markets, but not all governance structures carry equal valuation weight. Markets discriminate between substantive governance, characterized by observable board activity, committee engagement, and stakeholder interaction, and symbolic governance, which involves formal compliance structures without demonstrable monitoring intensity. Ogundipe (2019) demonstrated that board diligence, measured through meeting frequency and board size, positively influences firm value in Nigerian banks, while formal board independence fails to command a valuation premium. This pattern reflects rational investor behavior under conditions of high information asymmetry: investors reward credible signals of governance quality that are costly to fake and verifiable through public disclosures. Second, the governance pillar of ESG shows more mixed associations with firm value compared to environmental and social dimensions across emerging markets. Multiple studies report that environmental and social performance contribute more consistently to firm value than governance metrics, possibly reflecting measurement challenges or genuine differences in how markets value different ESG dimensions. This pattern suggests that governance quality may be more context-dependent and that formal governance indicators commonly used in ESG ratings may fail to capture actual monitoring effectiveness.

Third, board characteristics show heterogeneous associations with firm value and ESG performance across emerging markets. Gender diversity demonstrates consistently positive associations with ESG disclosure and sustainability performance, while board independence shows surprisingly weak or mixed effects. Board activity and committee engagement emerge as robust predictors of governance quality,

supporting the substantive governance thesis. Board size shows non-linear relationships, with optimal size varying across contexts based on firm complexity, regulatory intensity, and director availability. Fourth, ownership structure, regulatory context, and industry characteristics moderate governance-value relationships in important ways. State ownership, institutional ownership, and ownership concentration all influence how governance mechanisms translate into firm value. Regulatory reforms can strengthen governance credibility and enhance the effectiveness of governance mechanisms, as demonstrated by evidence from Saudi Arabia. Industry-specific factors, particularly pollution exposure and regulatory intensity, shape how ESG performance influences valuation.

The theoretical framework integrating agency theory, stakeholder theory, and signaling theory provides a coherent explanation for these empirical patterns. Agency theory explains why governance mechanisms that reduce agency costs enhance firm value, but also highlights that the specific mechanisms that effectively mitigate agency problems vary across institutional contexts. Stakeholder theory explains why governance structures that facilitate stakeholder engagement and build legitimacy support value creation, particularly for environmental and social dimensions of ESG. Signaling theory explains why observable governance intensity carries more valuation weight than formal structural compliance: credible signals reduce information asymmetry and allow investors to distinguish genuine governance quality from symbolic compliance. The substantive-symbolic governance distinction, articulated by Ogundipe (2019) and supported by subsequent evidence, represents a critical insight for understanding governance-value relationships in emerging markets. This distinction has direct implications for corporate boards, investors, and

policyholders. Boards should prioritize observable governance intensity over formal compliance, recognizing that markets reward visible, enacted governance rather than merely stated structures. Investors should focus on substantive governance indicators when assessing governance quality and incorporating governance factors into valuation models. Policymakers should design disclosure frameworks that make governance intensity observable and verifiable rather than merely mandating formal structural requirements.

Several limitations and directions for future research merit attention. First, the evidence base remains geographically concentrated in Asian emerging markets, particularly China, with more limited evidence from African, Latin American, and Middle Eastern markets. Future research should expand geographic coverage to assess whether patterns observed in Asian markets generalize to other emerging market contexts. Second, measurement of governance quality remains challenging, with most studies relying on formal structural indicators that may fail to capture actual monitoring effectiveness. Future research should develop and validate behavioral and outcome-based governance measures that better reflect substantive governance quality. Third, the mechanisms through which governance influences firm value, including mediating roles of stakeholder trust, reputational capital, and access to resources, require further theoretical and empirical development. Despite these limitations, the evidence synthesized in this paper provides clear guidance for stakeholders seeking to understand and enhance the relationship between ESG governance and market valuation in emerging financial markets. The distinction between substantive and symbolic governance, the importance of observable governance intensity, and the context-dependence of governance effectiveness represent

key insights that should inform governance practice, investment analysis, and regulatory design in emerging markets. As ESG integration continues to accelerate globally, understanding how governance mechanisms function in diverse institutional contexts becomes increasingly critical for achieving the twin goals of enhanced corporate performance and sustainable value creation.

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Appendix

Figures 1-3

Figure 1: Conceptual Framework for ESG Governance Research

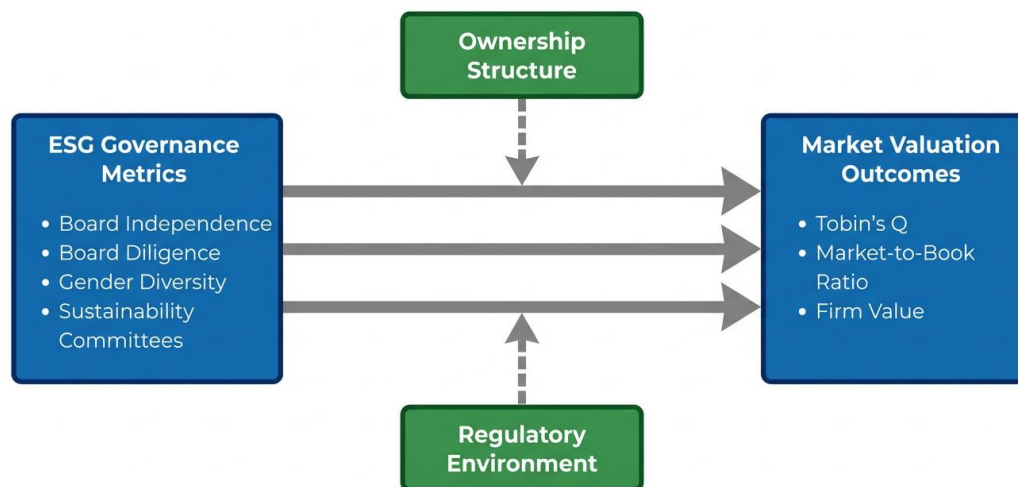


Figure 2: Substantive vs Symbolic Governance

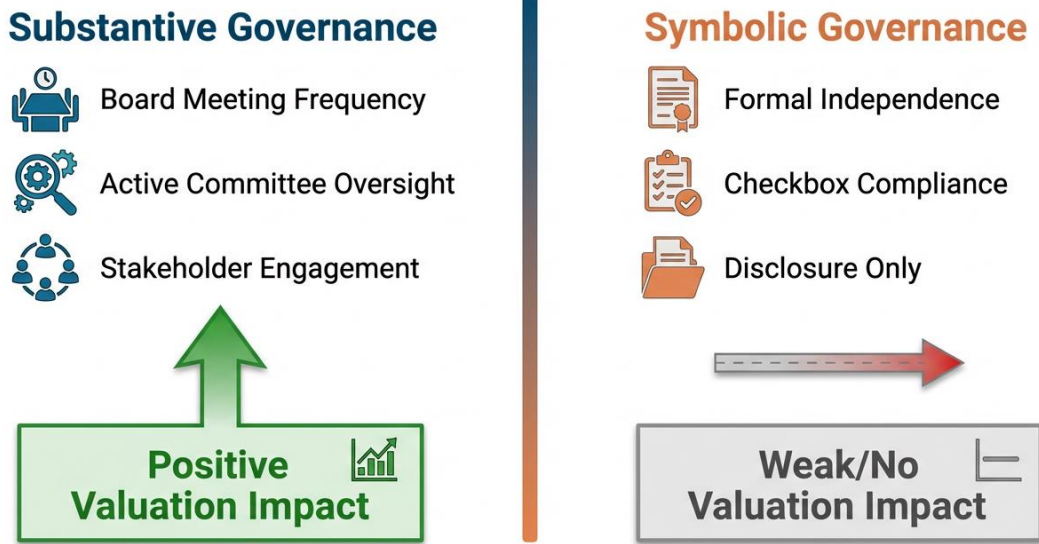


Figure 3: Emerging Markets Context & ESG Research Findings

