RESEARCH ARTICLE

International Journal of Science, Technology and Society (IJSTS)
Vol. 3, No. 1 (2017): 77-91

Evaluating the Effectiveness of Corporate Governance Mechanisms in Strengthening Financial Accountability in Emerging Economies: A Systematic Literature Review

Carol Kpobie[1*], Chima Azubuike[2], Rita Korkor Agyei[3], Esther Nwozaku[4]

[1]Deloitte & Touche LLP, Accra, Ghana. Email: msckpobie@gmail.com
[2]Guaranty Trust Bank (Nigeria) Limited, South East Region, Nigeria. Email: zoeaku0310@gmail.com
[3]Vodafone Ghana, Accra, Ghana. Email: ritakorkor.agyei@gmail.com
[4]Independent Researcher, Nigeria. Email: nwozakuesther@gmail.com

Publication Info

Keywords:
Corporate governance;
financial accountability;
emerging economies;
audit committee;
board independence;
ownership structure;
earnings management;
disclosure;
systematic literature review

****Corresponding Author:***
Carol Kpobie
Email:
msckpobie@gmail.com
DOI: 10.18091/ijsts.3.1.1

ABSTRACT

Purpose: This review evaluates how effectively corporate governance mechanisms strengthen financial accountability in emerging economies. It asks which internal and external mechanisms are consistently associated with more credible financial reporting, greater transparency and stronger answerability of managers and controlling owners to capital providers and other stakeholders, and under what institutional conditions those mechanisms work or fail.
Design/methodology/approach: A systematic literature review was conducted following the PRISMA statement (Moher, Liberati, Tetzlaff, Altman & The PRISMA Group, 2009) and the review principles of Tranfield, Denyer and Smart (2003). Peer-reviewed empirical studies published between 2000 and 2017 and set in emerging or developing economies were identified through structured searches of Scopus, Web of Science and Google Scholar, screened against explicit eligibility criteria and appraised for quality. A core set of 40 empirical studies covering East and Southeast Asia, South Asia, sub-Saharan Africa, the Middle East and North Africa (MENA), the Gulf Cooperation Council (GCC), Turkey and Latin America was synthesised thematically, supported by meta-analytic and survey evidence.
Findings: The evidence indicates that governance mechanisms do strengthen financial accountability in emerging economies, but their effectiveness is conditional rather than automatic. Audit committees, high-quality external audit and disclosure regimes show the most consistent links with improved reporting quality. Board independence shows positive but less stable effects, frequently weakened by concentrated family, business group or state ownership and by political connections. Ownership structure acts both as a monitoring device and as a source of expropriation of minority shareholders through tunnelling and related-party transactions. Codes and regulation improve accountability only when supported by enforcement and an institutional environment that rewards compliance in substance rather than in form.
Originality/value: The review consolidates fragmented, region-specific evidence into an integrated framework that distinguishes the formal adoption of governance mechanisms from their functional effectiveness, identifies the institutional conditions that moderate effectiveness and sets out an agenda for research, policy and practice.
Research limitations: The review is limited to English-language peer-reviewed journal articles published between 2000 and 2017, relies on a single reviewer for screening and appraisal, and cannot pool effect sizes because outcome measures are heterogeneous.

1. INTRODUCTION

Financial accountability, understood as the obligation of those who control corporate resources to give a truthful, timely and verifiable account of how those resources have been used, lies at the centre of the corporate governance project. Where accountability is weak, investors cannot distinguish well-run firms from poorly run ones, the cost of capital rises, minority shareholders

are exposed to expropriation and confidence in markets erodes. These problems are especially acute in emerging economies, where capital markets are younger, ownership is often concentrated in families, business groups or the state, legal enforcement is uneven and informal relationships can carry more weight than written rules (Claessens & Yurtoglu, 2013; La Porta, Lopez-de-Silanes, Shleifer & Vishny, 2000; Young, Peng, Ahlstrom, Bruton & Jiang, 2008).

The Asian financial crisis of 1997 and 1998 brought these weaknesses into sharp relief. Firms with weaker governance, poorer disclosure and a larger gap between the control and cash-flow rights of their dominant owners suffered markedly worse outcomes during the crisis (Johnson, Boone, Breach & Friedman, 2000; Lemmon & Lins, 2003; Mitton, 2002). In the years that followed, emerging economies adopted governance reforms modelled largely on Anglo-American practice: independent directors, audit committees, separation of the chief executive and chair roles, adoption of International Financial Reporting Standards (IFRS), stronger auditor oversight and national codes of corporate governance. Examples include Clause 49 of the listing agreement in India, the Malaysian Code on Corporate Governance, the King reports in South Africa, the Code of Corporate Governance issued by the Securities and Exchange Commission of Nigeria and the governance codes adopted across the GCC (Aguilera & Cuervo-Cazurra, 2009). A central question follows: do these mechanisms actually strengthen financial accountability, or do they produce compliance that is formal but hollow?

The empirical literature on this question has grown rapidly, yet it remains fragmented across countries, industries, methods and outcome measures, and individual studies frequently reach conflicting conclusions about the same mechanism. Board independence, for example, is found to constrain earnings management in some markets and to have no measurable effect in others (Abdul Rahman & Ali, 2006; Sarkar, Sarkar & Sen, 2008). Earlier reviews have surveyed governance in emerging markets broadly (Claessens & Yurtoglu, 2013; Claessens & Fan, 2002), framed the principal-principal problem (Young *et al.*, 2008) or pooled evidence on particular mechanisms through meta-analysis (García-Meca & Sánchez-Ballesta, 2009; Lin & Hwang, 2010; Inaam & Khamoussi, 2016; Samaha, Khlif & Hussainey, 2015). A focused synthesis linking governance mechanisms specifically to financial accountability outcomes across emerging economies is therefore warranted.

This paper addresses that gap through a systematic literature review of studies published between 2000 and 2017. It is guided by four research questions:

- RQ1: Which corporate governance mechanisms have been examined in relation to financial accountability in emerging economies?
- RQ2: How effective are these mechanisms in improving financial accountability outcomes such as financial reporting quality, earnings management, disclosure and audit quality?
- RQ3: Which institutional and firm-level conditions moderate the effectiveness of these mechanisms?
- RQ4: What gaps remain in the literature, and what are the implications for research, policy and practice?

The paper makes three contributions. First, it maps the evidence by mechanism, region and outcome. Second, it develops an integrated framework that separates the adoption of a mechanism from its effectiveness and specifies the conditions that link the two. Third, it identifies methodological and thematic gaps and translates the findings into recommendations for policymakers and practitioners. The remainder of the paper is organised as follows. The rest of this introduction defines financial accountability, describes the governance mechanisms examined and sets out the theoretical lenses. Section 2 describes the research method. Section 3 presents the results and discussion, including the conceptual model and the implications of the review. Section 4 concludes and sets out the limitations of the review and directions for future research.

1.1 Defining financial accountability

Accountability in the corporate setting has two elements: answerability, meaning the duty to explain and justify decisions, and enforceability, meaning the possibility that those who fail in that duty face consequences. Financial accountability narrows this to the stewardship of financial resources and the information through which that stewardship is reported. Because accountability is not directly observable, the empirical literature relies on proxies. The most common are (i) financial reporting quality, frequently measured inversely through discretionary accruals or the informativeness of earnings (Fan & Wong, 2002; Leuz, Nanda & Wysocki, 2003); (ii) the extent and quality of mandatory and voluntary disclosure (Haniffa & Cooke, 2002; Barako, Hancock & Izan, 2006); (iii) audit quality and auditor choice (Fan & Wong, 2005; Wang, Wong & Xia, 2008); (iv) the incidence of fraud, tunnelling and related-party abuse (Chen, Firth, Gao & Rui, 2006; Jiang, Lee & Yue, 2010); and (v) the information environment more broadly, including stock price informativeness (Gul, Kim & Qiu, 2010). Firm value and performance are sometimes used as distal outcomes and are treated here as secondary indicators.

1.2 Corporate governance mechanisms

Following Aguilera, Desender, Bednar and Lee (2015), governance mechanisms are grouped into internal and external categories. Internal mechanisms include the board of directors (its size, independence, leadership structure and expertise), board committees, particularly the audit committee, internal control and internal audit, and ownership structure, including managerial, institutional, foreign, family and state ownership. External mechanisms include the statutory external audit, the legal and regulatory framework, accounting standards, codes of corporate governance, capital market discipline and, in Islamic finance, Sharia supervisory boards. National institutions such as the rule of law, enforcement capacity and control of corruption shape how all of these operate (La Porta *et al.*, 2000; Hope, 2003).

1.3 Theoretical lenses

Agency theory remains the dominant lens. It frames governance as a set of devices for reducing the costs that arise when managers act in their own interest rather than that of shareholders (Jensen & Meckling, 1976; Fama & Jensen, 1983). In emerging economies the principal conflict is often not between dispersed shareholders and professional managers but between controlling and minority shareholders, the principal-principal problem, in which a dominant owner may use control to divert resources (Young *et al.*, 2008; Claessens, Djankov & Lang, 2000). Tunnelling, the transfer of resources out of a firm for the benefit of controlling owners, is the clearest expression of this problem (Johnson, La Porta, Lopez-de-Silanes & Shleifer, 2000). Mechanisms designed to discipline managers may be ineffective, or even captured, when the threat comes from a controlling owner.

Stakeholder theory (Freeman, 1984) widens the set of parties to whom firms are accountable to include employees, creditors, governments and communities, and underpins research on social and risk disclosure (Haniffa & Cooke, 2005; Ntim, Lindop & Thomas, 2013). *Resource dependence theory* (Pfeffer & Salancik, 1978) treats the board as a source of expertise, legitimacy and connections. *Institutional theory* (North, 1990) explains why governance structures borrowed from developed markets may be adopted ceremonially to gain legitimacy while underlying practices remain unchanged (Zattoni & Cuomo, 2008), a theme that recurs strongly in the African evidence (Okike, 2007; Wanyama, Burton & Helliar, 2009; Adegbite, 2015). The review draws on all four lenses but pays particular attention to the interaction between agency mechanisms and institutional context.

2. RESEARCH METHOD

2.1 Review design

The review adopts a systematic literature review design because it offers a transparent, replicable procedure for locating, selecting, appraising and synthesising evidence and limits the selection bias common in narrative reviews (Tranfield *et al.*, 2003; Denyer & Tranfield, 2009). Reporting follows the PRISMA statement (Moher *et al.*, 2009), adapted for an accounting and management context in which meta-analytic pooling is rarely feasible because of heterogeneous measures. The review is therefore a structured thematic synthesis, supported where possible by the findings of published meta-analyses.

2.2 Search strategy

Searches were run in Scopus and Web of Science Core Collection as the primary databases, supplemented by Google Scholar to capture regionally important journals. Search strings combined three blocks of terms, applied to titles, abstracts and keywords, as shown in Table 1. Backward and forward citation tracking of included studies and of prior reviews was used to identify further eligible studies.

Table 1: Search string blocks

Block	*Terms (combined with OR within blocks and AND across blocks)*
A. Governance	"corporate governance" OR "board of directors" OR "board independence" OR "audit committee" OR "internal control" OR "ownership structure" OR "institutional ownership" OR "external audit" OR "audit quality" OR "Sharia board"
B. Accountability outcome	accountab* OR "financial reporting quality" OR "earnings management" OR "earnings quality" OR "earnings informativeness" OR disclosure OR transparency OR tunnel* OR "related party transaction*" OR fraud
C. Context	"emerging econom*" OR "emerging market*" OR "developing countr*" OR "transition econom*" OR Africa OR "Middle East" OR MENA OR GCC OR Asia OR "Latin America" OR named country terms (for example Nigeria, Ghana, Kenya, South Africa, Zimbabwe, Egypt, Jordan, India, Malaysia, Indonesia, China, Korea, Turkey, Brazil)

Source: Author's review protocol.

2.3 Eligibility criteria

Studies were included if they (a) were published in English in peer-reviewed journals between January 2000 and December 2017; (b) examined one or more corporate governance mechanisms as an explanatory or moderating variable; (c) examined at least one financial accountability outcome as defined in Section 1.1, or firm value where the study explicitly framed governance as an accountability device; and (d) used data from one or more emerging or developing economies. Studies were excluded if they were conference papers, theses, editorials or non-scholarly reports; focused solely on developed markets; or examined governance without any link to an accountability-related outcome. Theoretical works, surveys and meta-analyses were used for background and triangulation but were not counted in the core corpus.

2.4 Screening, quality appraisal and data extraction

Records were de-duplicated and screened first on title and abstract and then on full text against the eligibility criteria. Full texts were appraised on five criteria: clarity of research question, appropriateness of design and data, validity of governance and outcome measures, treatment of endogeneity and robustness, and coherence between findings and conclusions. Only studies judged of adequate quality on all five were retained. For each included study, a standardised extraction form recorded the country or region, sector, design, governance mechanisms, outcome measures, theoretical lens and principal findings. The final core corpus comprises 40 studies, listed in Table 3.

2.5 Synthesis approach

Findings were organised by governance mechanism, coded for the direction of the reported effect on accountability (strengthening, mixed or contingent, and no effect or weakening) and examined for patterns by region and institutional setting. Where studies reported conditional effects, the moderating conditions were coded separately to inform the conceptual model developed in Section 3.10.

Table 2: Summary of the review protocol

Stage	*Procedure*
Identification	Structured searches of Scopus, Web of Science and Google Scholar using the strings in Table 1; citation tracking of included studies and prior reviews
Screening	Removal of duplicates; title and abstract screening against inclusion and exclusion criteria
Eligibility	Full-text assessment for population (emerging economies), exposure (governance mechanism), outcome (accountability proxy), period (2000 to 2017) and publication type
Quality appraisal	Five-criterion appraisal covering question, design, measurement, endogeneity treatment and coherence
Inclusion	40 empirical studies retained for thematic synthesis (Table 3)

Source: Author's review protocol, adapted from Moher et al. (2009) and Tranfield et al. (2003).

3. RESULTS AND DISCUSSION

This section presents and discusses the results of the review. It first profiles the 40 reviewed studies, then synthesises the evidence on each governance mechanism (Sections 3.2 to 3.9), develops a conceptual model (Section 3.10), discusses the findings (Section 3.11) and sets out their implications (Section 3.12).

3.1 Profile of the reviewed studies

The reviewed studies span a wide geographical range. East and Southeast Asia (China, Korea, Malaysia, Indonesia and cross-country East Asian samples) account for the largest share, reflecting the research attention that followed the Asian financial crisis. Sub-Saharan Africa (Nigeria, Ghana, Kenya, South Africa, Zimbabwe and multi-country samples), the MENA and GCC region (Egypt, Jordan, Saudi Arabia and the wider GCC) and South Asia (India) form substantial clusters, followed by Turkey and multi-country emerging market samples

that include Latin American firms. Latin America as a stand-alone setting remains under-represented.

Methodologically, the corpus is dominated by quantitative archival studies using cross-sectional or panel data on listed companies, with outcomes measured through discretionary accruals, earnings informativeness, disclosure indices, auditor choice or firm value. A smaller number of studies use event studies around governance reforms (Black & Khanna, 2007) or multiple identification strategies to address endogeneity (Black & Kim, 2012). Financial institutions, especially banks and Islamic banks, form a distinct sub-literature. Agency theory is the most frequently stated lens, often combined with stakeholder, resource dependence or institutional theory. Table 3 summarises the studies.

Table 3: Summary of reviewed studies (2000 to 2017)

Study	*Setting*	*Mechanism(s) examined*	*Principal finding for accountability*
Mitton (2002)	East Asia; listed firms	Disclosure quality; outside ownership	Better disclosure and outside block ownership associated with better stock performance during the crisis
Fan & Wong (2002)	East Asia; listed firms	Ownership concentration; pyramids	Concentrated control associated with less informative earnings
Bae, Kang & Kim (2002)	Korea; business groups	Group control	Evidence consistent with tunnelling through group acquisitions
Lemmon & Lins (2003)	East Asia; listed firms	Control and cash-flow rights wedge	Larger wedge associated with lower value during the crisis
Klapper & Love (2004)	14 emerging markets	Firm-level governance rankings	Better governance associated with higher value, more so where legal protection is weak
Fan & Wong (2005)	East Asia; listed firms	Big Five auditors	High-quality auditors used as a governance device where agency problems are severe
Barako, Hancock & Izan (2006)	Kenya; listed firms	Board, audit committee, ownership	Audit committees and institutional and foreign ownership linked to voluntary disclosure
Abdul Rahman & Ali (2006)	Malaysia; listed firms	Board and audit committee attributes	Limited effectiveness of board and audit committee in constraining earnings management
Chen, Firth, Gao & Rui (2006)	China; listed firms	Ownership; board composition	Board composition and ownership linked to the incidence of fraud
Haniffa & Hudaib (2006)	Malaysia; listed firms	Board structure; ownership	Board and ownership attributes linked to performance
Kim & Yi (2006)	Korea; listed firms	Group affiliation; ownership wedge	Group affiliation and control wedge associated with more earnings management
Black, Jang & Kim (2006)	Korea; listed firms	Governance index	Better governance associated with higher market value
Black & Khanna (2007)	India; listed firms	Clause 49 reform	Positive market reaction to the announcement of governance reform
Firth, Fung & Rui (2007)	China; listed firms	Ownership type; two-tier board	Ownership and board structure affect earnings informativeness
Tsamenyi, Enninful-Adu & Onumah (2007)	Ghana; listed firms	Ownership structure; dispersion	Ownership structure associated with disclosure levels
Liu & Lu (2007)	China; listed firms	Governance quality; tunnelling	Earnings management used to support tunnelling; better governance reduces it
Mangena & Tauringana (2007)	Zimbabwe; listed firms	Governance; foreign ownership	Governance and foreign ownership linked to disclosure

Study	*Setting*	*Mechanism(s) examined*	*Principal finding for accountability*
Fan, Wong & Zhang (2007)	China; partially privatised firms	Politically connected CEOs	Political connections associated with weaker post-IPO performance and more bureaucrats on boards
Sarkar, Sarkar & Sen (2008)	India; listed firms	Board independence, diligence, busyness	Board diligence associated with less, and busy directors with more, earnings management
Siregar & Utama (2008)	Indonesia; listed firms	Ownership; governance practices	Ownership and governance practices shape the type of earnings management
Wang, Wong & Xia (2008)	China; listed firms	State ownership; auditor choice	State-owned firms more likely to choose small local auditors
Bokpin & Isshaq (2009)	Ghana; listed firms	Governance; foreign ownership	Governance attributes and foreign ownership linked to disclosure
Hassan, Romilly, Giorgioni & Power (2009)	Egypt; listed firms	Disclosure	Disclosure relevant to market valuation
Gul, Kim & Qiu (2010)	China; listed firms	Ownership; foreign holding; audit quality	Governance attributes shape stock price informativeness
Jiang, Lee & Yue (2010)	China; listed firms	Controlling shareholders	Large-scale tunnelling through intercorporate loans
Chaney, Faccio & Parsley (2011)	Multi-country incl. emerging	Political connections	Connected firms report lower-quality earnings
Mangena, Tauringana & Chamisa (2012)	Zimbabwe; listed firms	Board and ownership	Governance effects persist in a severe crisis environment
Samaha, Dahawy, Hussainey & Stapleton (2012)	Egypt; listed firms	Board and ownership	Board and ownership attributes determine governance disclosure
Ntim, Opong & Danbolt (2012)	South Africa; listed firms	Governance disclosure reforms	Governance disclosures are value relevant
Ntim, Lindop & Thomas (2013)	South Africa; listed firms	Board and ownership	Governance associated with more extensive risk disclosure
Waweru & Riro (2013)	Kenya; listed firms	Board and ownership	Governance attributes associated with earnings management
Munisi & Randøy (2013)	Sub-Saharan Africa; listed firms	Board and governance attributes	Mixed links between governance attributes and performance
Dharmapala & Khanna (2013)	India; listed firms	Enforcement of Clause 49	Credible enforcement of reform associated with higher firm value
Alzoubi (2016)	Jordan; listed firms	Ownership structure	Ownership types differ in their effect on earnings management
Agyei-Mensah (2016)	Ghana; listed firms	Governance attributes	Governance linked to internal control disclosure
Ararat, Black & Yurtoglu (2017)	Turkey; listed firms	Governance index	Governance quality linked to value and profitability
Abdallah & Ismail (2017)	GCC; listed firms	Governance; ownership concentration	Governance effects depend on ownership structure
Kolsi & Grassa (2017)	GCC; Islamic banks	Board, audit and Sharia board	Mixed: some mechanisms constrain earnings management, others insignificant
Habib, Muhammadi & Jiang (2017)	Indonesia; listed firms	Political connections	Connected firms engage more in related-party transactions
He, Pittman, Rui & Wu (2017)	China; listed firms	Auditor and audit committee ties	Social ties reduce audit quality

Note: Findings are summarised at a high level; readers should consult each source for exact specifications.

3.2 Board independence and board structure

The board is the most frequently studied governance mechanism, and board independence is its most frequently tested attribute. The logic is that non-executive directors who are free of management and controlling-owner ties will challenge management, scrutinise financial reports and demand transparency. The evidence from emerging economies supports this logic only partially. In Korea, governance indices and board independence are associated with higher firm value, and studies using several identification strategies suggest the relationship is at least partly causal (Black, Jang & Kim, 2006; Black & Kim, 2012). In India, markets reacted positively to the announcement of the Clause 49 reforms and to their credible enforcement (Black & Khanna, 2007; Dharmapala & Khanna, 2013), and the diligence of the board is associated with less earnings management (Sarkar *et al.*, 2008). In China, board composition is linked to the incidence of fraud (Chen *et al.*, 2006). In Turkey, a governance index that includes board structure is associated with higher firm value and profitability over time (Ararat, Black & Yurtoglu, 2017).

Elsewhere the evidence is weaker. In Malaysia, boards and audit committees appear to have had limited effect in constraining earnings management (Abdul Rahman & Ali, 2006), and studies in sub-Saharan Africa and Saudi Arabia report mixed or insignificant links between board attributes and outcomes (Munisi & Randøy, 2013; Waweru & Riro, 2013; Buallay, Hamdan & Zureigat, 2017). Three explanations recur. First, independence is often defined formally in codes but compromised in practice by family, business group or political ties (Okike, 2007; Adegbite, 2015). Second, where ownership is concentrated, the controlling shareholder typically appoints the board, so independence from management does not imply independence from the dominant owner (Young *et al.*, 2008; Abdallah & Ismail, 2017). Third, the effectiveness of independent directors depends on their expertise, time and access to information; Sarkar *et al.* (2008) show that busy directors are associated with more earnings management. Board independence therefore emerges as a necessary but insufficient condition for accountability.

Evidence on CEO duality and board size is similarly mixed, and meta-analytic work finds that the effects of board characteristics on earnings management are sensitive to the legal and institutional environment (García-Meca & Sánchez-Ballesta, 2009). Studies in Malaysia and India report that board structure and ownership interact in shaping performance and reporting (Haniffa & Hudaib, 2006; Kapoor & Goel, 2017).

3.3 Audit committees

The audit committee is the governance mechanism with the most direct responsibility for financial reporting. Meta-analyses that include emerging-market studies find that audit committee independence and expertise are, on balance, associated with lower earnings management (Lin & Hwang, 2010; Inaam & Khamoussi, 2016) and that board and audit committee characteristics are associated with greater voluntary disclosure (Samaha *et al.*, 2015). In Kenya, the presence of an audit committee is associated with more voluntary disclosure (Barako *et al.*, 2006). In the GCC, audit committee attributes form part of the set of mechanisms that constrain earnings management in Islamic banks, although not all attributes are significant (Kolsi & Grassa, 2017).

The evidence also shows that structural compliance does not guarantee effectiveness. In Malaysia, audit committees that formally met code requirements had limited effect on earnings management, consistent with management dominance (Abdul Rahman & Ali, 2006). In China, social ties between audit committee members and external auditors reduce audit quality (He, Pittman, Rui & Wu, 2017). Effective committees therefore require genuine independence, financial expertise, adequate meeting frequency and freedom from relational ties to those they oversee.

3.4 Internal control and internal audit

Internal control and internal audit receive less attention than boards in the emerging-market literature, but where they are examined they appear important. In Ghana, governance attributes are associated with the disclosure of internal control information (Agyei-Mensah, 2016), and in Indian banks governance mechanisms shape earnings management, which in turn affects performance (Kumari & Pattanayak, 2017). Internal audit provides continuous, organisation-specific assurance that external audit and the board cannot, and supplies the audit committee with the information it needs. Its scarcity in the empirical literature is itself a notable gap.

3.5 Ownership structure

Ownership structure plays a dual role. Large and foreign shareholders have both the incentive and the power to monitor management: outside block ownership was associated with better outcomes during the Asian crisis (Mitton, 2002), and foreign and institutional ownership are associated with more disclosure in Kenya, Ghana and Zimbabwe (Barako *et al.*, 2006; Bokpin & Isshaq, 2009; Mangena & Tauringana, 2007). On the other hand, concentrated control creates the principal-principal problem. Across East Asia, control by a

dominant owner through pyramids and cross-holdings is associated with less informative earnings (Fan & Wong, 2002), and in China both ownership type and the two-tier board structure affect earnings informativeness (Firth, Fung & Rui, 2007), and a larger wedge between control and cash-flow rights is associated with lower firm value (Claessens, Djankov, Fan & Lang, 2002; Lemmon & Lins, 2003).

Tunnelling is the clearest accountability failure linked to ownership. Korean business groups used acquisitions in ways consistent with tunnelling (Bae, Kang & Kim, 2002), group affiliation and the control wedge are associated with more earnings management in Korea (Kim & Yi, 2006), and Chinese controlling shareholders extracted resources on a large scale through intercorporate loans (Jiang *et al.*, 2010), with earnings management used to facilitate such transfers (Liu & Lu, 2007). State ownership raises further issues: in China, state-owned firms were more likely to choose small local auditors (Wang *et al.*, 2008), and in the MENA banking sector the identity of the owner shapes reporting behaviour (Lassoued, Attia & Sassi, 2017). Evidence from Jordan, Indonesia and the GCC confirms that different types of owner affect earnings management and the impact of governance differently (Alzoubi, 2016; Siregar & Utama, 2008; Abdallah & Ismail, 2017).

The implication is that ownership is not simply a governance mechanism to be strengthened but a contextual condition that shapes whether other mechanisms work. Accountability reforms in concentrated-ownership settings need to target the protection of minority shareholders, for example through independent approval of related-party transactions, rather than relying on board structure alone.

3.6 External audit

External audit is a central external mechanism. In East Asia, firms with more severe agency problems were more likely to engage Big Five auditors, suggesting that high-quality audit acts as a governance device where internal mechanisms are weak (Fan & Wong, 2005). International evidence indicates that the effect of Big Four audits on earnings quality depends on investor protection (Francis & Wang, 2008), and in China, audit quality, foreign shareholding and ownership concentration jointly shape stock price informativeness (Gul *et al.*, 2010). However, auditor choice is itself shaped by ownership and politics, as the preference of state-owned Chinese firms for small local auditors shows (Wang *et al.*, 2008), and relational ties can compromise independence (He *et al.*, 2017). The effectiveness of external audit therefore depends heavily on auditor oversight, litigation risk and professional enforcement (DeFond & Zhang, 2014).

3.7 Political connections and related-party transactions

Political connections are a recurring force that weakens accountability. Connected firms are widespread in emerging economies (Faccio, 2006) and report lower-quality earnings, apparently because they face less market pressure for transparency (Chaney, Faccio & Parsley, 2011). In China, politically connected chief executives are associated with weaker post-IPO performance and with boards staffed by bureaucrats rather than professionals (Fan, Wong & Zhang, 2007), and in Indonesia connected firms engage more in related-party transactions (Habib, Muhammadi & Jiang, 2017). Governance mechanisms therefore operate against a background of informal power that can neutralise them, which makes disclosure and independent scrutiny of related-party dealings critical accountability tools.

3.8 Disclosure, transparency and Sharia governance

Disclosure is both an outcome of governance and a mechanism of accountability in its own right. Culture, board composition and ownership shape disclosure in Malaysia (Haniffa & Cooke, 2002, 2005), and governance attributes determine the extent of governance and voluntary disclosure in Egypt, Ghana, Kenya and Zimbabwe (Samaha, Dahawy, Hussainey & Stapleton, 2012; Tsamenyi, Enninful-Adu & Onumah, 2007; Barako *et al.*, 2006; Mangena & Tauringana, 2007). Disclosure matters to markets: it is value relevant in Egypt and South Africa (Hassan, Romilly, Giorgioni & Power, 2009; Ntim, Opong & Danbolt, 2012), and better-governed South African firms provide more risk disclosure (Ntim *et al.*, 2013). Forward-looking disclosure in Ghana and Botswana is shaped both by governance and by the national corruption environment (Agyei-Mensah, 2017). In Islamic banking, Sharia supervisory boards add a further governance layer whose effect on reporting is beginning to be examined (Kolsi & Grassa, 2017).

3.9 Codes, regulation and the institutional environment

National codes of corporate governance have proliferated in emerging economies, often adopted for legitimacy as much as efficiency (Aguilera & Cuervo-Cazurra, 2009; Zattoni & Cuomo, 2008). The Indian experience shows that codes can create value, but that credible enforcement is what makes the difference (Black & Khanna, 2007; Dharmapala & Khanna, 2013). Firm-level governance matters more where country-level investor protection is weak (Klapper & Love, 2004), yet earnings management is more pervasive precisely where investor protection is weak (Leuz *et al.*, 2003)

and enforcement of accounting standards shapes the usefulness of reported information (Hope, 2003). Qualitative and survey work in Nigeria and Uganda shows how weak enforcement, elite influence and divergent local understandings of governance limit the substance of code compliance (Okike, 2007; Wanyama *et al.*, 2009; Adegbite, 2015). Evidence from Zimbabwe indicates that governance continues to matter even in a severe economic and political crisis (Mangena, Tauringana & Chamisa, 2012). Methodological work cautions that governance indices must be built and validated carefully for each country (Black, de Carvalho, Khanna, Kim & Yurtoglu, 2017).

Table 4: Overall assessment of mechanism effectiveness

Mechanism	*Consistency of evidence*	*Key conditions for effectiveness*
Audit committee	Strong and largely positive	Real independence, financial expertise, no ties to management or auditors
Internal control and internal audit	Positive where studied, but under-studied	Independence from management, reporting to audit committee, competence and resources
External audit	Moderate; depends on environment	Auditor oversight, enforcement, litigation risk, absence of relational ties
Board independence	Mixed and contingent	Independence from controlling owners as well as management; director diligence and expertise
Foreign and institutional ownership	Moderate and positive	Active, informed investors with influence
Concentrated, family, group or state ownership	Often weakens minority accountability	Minority protection, related-party transaction controls
Disclosure regimes	Moderate to strong	Enforcement and market demand for information
Codes and regulation	Contingent	Credible enforcement, low corruption, substantive rather than symbolic compliance

Source: Author's synthesis of the reviewed studies.

3.10 Conceptual model

Drawing the synthesis together, this section proposes a conceptual model of how corporate governance mechanisms strengthen financial accountability in emerging economies (Figure 1). The model has three layers. The first is the *mechanism layer*, comprising internal mechanisms (the board, the audit committee, internal control and internal audit, and ownership structure) and external mechanisms (external audit, disclosure regimes and accounting standards, codes, regulation and enforcement, and Sharia supervisory boards). The second is the *conditioning layer*, comprising four moderating conditions: ownership and control, informal power, the national institutional environment and the capability of monitors. The third is the *outcome layer*, comprising the observable dimensions of financial accountability: reporting quality, disclosure and transparency, audit quality, control of tunnelling and related-party abuse, a richer information environment and answerability to minority shareholders and other stakeholders.

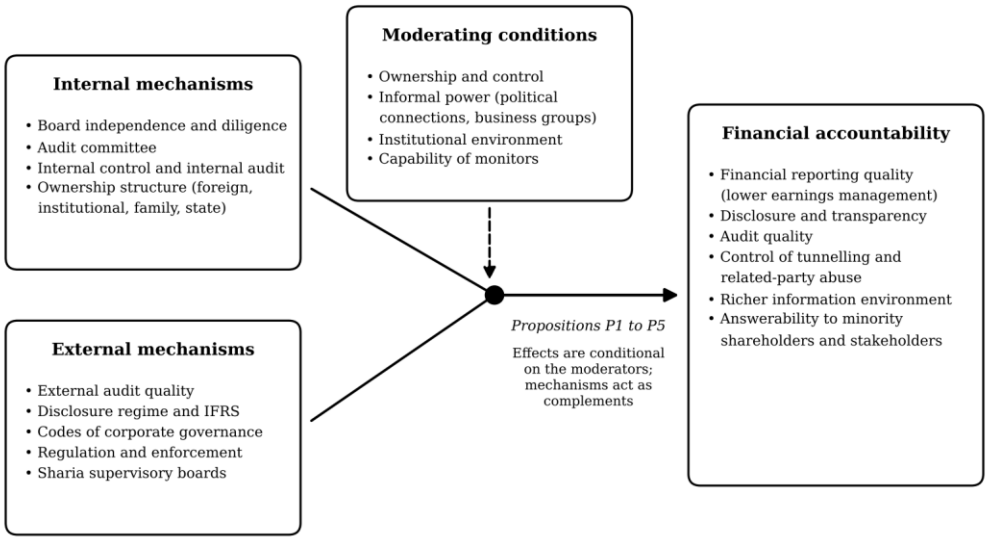


Figure 1: Conceptual model of corporate governance mechanisms and financial accountability in emerging economies
Source: Author's construction from the reviewed literature.

The model predicts that mechanisms affect accountability mainly through their interaction with the conditioning factors rather than directly, and that mechanisms closest to the financial reporting process will show the most consistent effects. It also treats governance mechanisms as complements rather than substitutes: audit committee effectiveness depends on reliable internal control and a credible external auditor, board independence depends on minority protection and enforcement, and disclosure depends on all of these. The model is summarised in five propositions that can guide future empirical testing.

P1: Governance mechanisms closest to the financial reporting process (the audit committee, internal control and external audit) are more consistently associated with financial accountability than board-level structural attributes.

P2: The positive effect of board independence on financial accountability is weaker where ownership is concentrated in a controlling family, business group or the state.

P3: Political connections and other forms of informal power weaken the effect of formal governance mechanisms on financial accountability.

P4: The effect of governance codes and firm-level mechanisms on financial accountability is stronger where enforcement is credible and corruption is low.

P5: Governance mechanisms are complementary, so that the combined presence of an effective audit committee, sound internal control and high-quality external audit strengthens financial accountability more than any one mechanism alone.

3.11 Discussion

3.11.1 The adoption-effectiveness gap

The central finding of this review is that the adoption of a governance mechanism and its effectiveness in strengthening financial accountability are distinct. Most emerging economies have adopted the formal architecture of modern governance, and many firms comply with code requirements on paper. Yet the evidence shows repeated instances where mechanisms that are present in form fail to operate in substance: boards and audit committees dominated by management, independent directors tied to controlling owners, auditors with social ties to those they audit and codes complied with for legitimacy rather than accountability. Institutional theory anticipates this pattern of ceremonial adoption (Zattoni & Cuomo, 2008), and the evidence confirms it is widespread.

3.11.2 Moderating conditions

Synthesising across studies, four conditions moderate whether mechanisms translate into accountability. The first is *ownership and control*: in concentrated-ownership settings, mechanisms designed to discipline managers do not reach the controlling owner, and the relevant accountability problem shifts towards protecting minorities. The second is *informal power*, including political connections, business group ties and elite networks, which can capture or neutralise formal mechanisms. The third is *the national institutional environment*, particularly investor protection, enforcement and

corruption, which determines whether failures of accountability carry consequences. The fourth is *capability*, meaning the expertise, time, information and resources available to directors, audit committees and auditors. Where all four conditions are favourable, governance mechanisms strengthen accountability reliably; where they are unfavourable, even well-designed mechanisms produce little effect.

3.11.3 Complementarity of mechanisms

The synthesis suggests that much of the inconsistency in the literature arises because mechanisms are usually studied one at a time. Studies that examine a single mechanism in isolation may understate or misattribute its effect when its operation depends on others. The evidence that audit committees are ineffective when dominated by management (Abdul Rahman & Ali, 2006), that external auditors substitute for weak internal governance where agency problems are severe (Fan & Wong, 2005) and that firm-level governance matters more where country-level protection is weak (Klapper & Love, 2004) all point to interdependence between mechanisms and between firm and country levels of governance.

3.11.4 Regional patterns

Some regional patterns are discernible. East Asian studies, shaped by the Asian crisis, emphasise pyramidal ownership, business groups, tunnelling and the governance role of auditors. Chinese studies add state ownership and political connections. South Asian studies focus on board reform and enforcement. African studies place relatively greater emphasis on disclosure, foreign ownership and the gap between imported codes and local institutions. MENA and GCC studies emphasise ownership concentration, banking and Islamic governance. These patterns reflect genuine differences in governance problems across regions and caution against one-size-fits-all reform.

3.12 Implications

3.12.1 Theoretical implications

The review has three implications for theory. First, it supports the view that agency theory must be adapted to emerging economies by placing the principal-principal conflict between controlling and minority shareholders at the centre of analysis (Young *et al.*, 2008). Second, it shows that agency mechanisms cannot be understood without institutional theory, because the same mechanism can be substantive in one setting and ceremonial in another (Zattoni & Cuomo, 2008). Third, it suggests that accountability should be theorised as an outcome of bundles of complementary mechanisms operating under specific institutional conditions, rather than as the product of any single mechanism.

3.12.2 Implications for regulators and standard setters

Regulators should shift attention from formal adoption to substantive effectiveness. Practical steps include tightening definitions of independence to capture family, business group and political ties; requiring disclosure and independent approval of significant related-party transactions; strengthening auditor oversight and the enforcement of reporting standards; and monitoring compliance with codes through review of practice rather than self-reported checklists. Because concentrated ownership is a defining feature of many emerging markets, minority shareholder protection should be treated as a core accountability objective.

3.12.3 Implications for boards and audit committees

Boards should prioritise the expertise, diligence and genuine independence of audit committee members, limit multiple directorships that reduce the time directors can devote to oversight, ensure that internal audit reports directly to the audit committee and avoid relational ties between committee members, management and external auditors.

3.12.4 Implications for auditors and investors

Audit firms in emerging markets should strengthen independence safeguards, particularly against social and relational ties and political pressure. Foreign and institutional investors can play a larger monitoring role, and the evidence suggests that their presence is associated with more disclosure. Investors should look beyond formal governance scores to indicators of substantive accountability, such as the handling of related-party transactions and the quality of the audit committee.

4. CONCLUSION

This systematic review has evaluated the effectiveness of corporate governance mechanisms in strengthening financial accountability in emerging economies, drawing on studies published between 2000 and 2017. The evidence shows that governance mechanisms can and do strengthen accountability, but their effectiveness is conditional. Mechanisms closest to the financial reporting process, namely the audit committee, internal control and external audit, together with credible disclosure regimes, show the most consistent effects. Board independence and foreign and institutional ownership show positive but less stable effects. Concentrated ownership, tunnelling, political connections and weak enforcement repeatedly limit what formal mechanisms

can achieve. The most important lesson is that accountability depends less on whether a mechanism exists than on whether it functions in substance within its institutional setting.

4.1 Limitations of the review

The review has several limitations. First, it is restricted to English-language peer-reviewed journal articles, which may exclude relevant work published in other languages, particularly French, Portuguese, Spanish and Arabic, and in working papers or national outlets. Second, screening and quality appraisal were conducted by a single reviewer, which introduces a risk of selection bias despite the use of explicit criteria. Third, the heterogeneity of governance and accountability measures across studies prevented meta-analytic pooling, so conclusions about the size of effects are qualitative. Fourth, the corpus is weighted towards listed firms and towards Asia and Africa, which limits generalisation to unlisted firms, state-owned enterprises and Latin America. Finally, most underlying studies are correlational, so the review cannot establish causal effects, and publication bias towards significant findings may overstate the effectiveness of some mechanisms.

4.2 Directions for future research

The review identifies several gaps that offer directions for future research. The propositions in Section 3.10 provide a starting point for empirical testing, and the following areas deserve particular attention.

- *Geographical coverage:* Latin America, Central Asia and francophone and lusophone Africa are underrepresented, and comparative multi-country studies that test whether mechanisms behave similarly across institutional settings remain scarce.
- *Measurement of accountability:* Most studies rely on indirect proxies such as discretionary accruals or firm value. Direct measures, including restatements, regulatory sanctions, audit opinions and stakeholder assessments, would strengthen inference.
- *Substance over form:* Governance is usually measured through structural attributes such as the proportion of independent directors. Future work should measure functional attributes, including director ties, expertise, time commitment, information access and the handling of related-party transactions.
- *Causal identification:* Endogeneity is a persistent concern. Governance reforms such as new national codes offer opportunities for event studies, difference-in-differences and other quasi-experimental designs, following the example of the Indian and Korean studies.
- *Internal control, internal audit and the public sector:* These mechanisms and state-owned enterprises are central to accountability in emerging economies but receive limited empirical attention.
- *Banks and Islamic financial institutions:* The governance of banks, including Sharia supervisory boards, deserves more systematic study given its importance for financial stability.
- *Qualitative and mixed methods:* More qualitative and mixed-methods research is needed to explain how mechanisms operate inside boards and audit committees and why formal compliance fails to produce substantive accountability.

4.3 Concluding remarks

Despite its limitations, the review offers a consolidated evidence base and a conceptual model that can guide future research and practical reform aimed at making governance in emerging economies a genuine instrument of financial accountability.

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