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CORPORATE GOVERNANCE REFORMS AND SHAREHOLDER VALUE- A REVIEW OF LITERATURE ON BOARD INDEPENDENCE AND EXECUTIVE COMPENSATION

[1]Akomolehin Francis Olugbenga, [2]Ibukun Felix Olusegun, [3]Abiodun Thomas Ogundele.
[1,2&3]Dept. of Finance, College of Social and Management Sciences, Afe Babalola University, Ado - Ekiti,

ABSTRACT

Corporate governance reforms have attracted substantial global attention following major corporate scandals and the 2008 financial crisis, particularly reforms relating to board independence and executive compensation regulation. This study reviews the literature on the relationship between corporate governance reforms and shareholder value through an integration of agency theory and stakeholder theory. Using a systematic review of peer-reviewed studies published between 2005 and 2026, alongside a comparative institutional analysis of the United States, the United Kingdom, Germany, and Japan, the paper evaluates how governance reforms influence firm performance under different institutional environments. The review indicates that board independence and executive compensation regulations can improve shareholder value when supported by strong investor protection, credible enforcement mechanisms, and active shareholder participation. However, the effectiveness of such reforms varies across governance systems and ownership structures. In stakeholder-oriented and coordinated market economies, formal board independence alone may produce limited outcomes without broader institutional support. Similarly, compensation reforms such as Say-on-Pay provisions, clawback policies, and ESG-linked incentives appear more effective when implementation and monitoring mechanisms are robust. The study further argues that agency theory explains short-term governance outcomes associated with monitoring and incentive alignment, whereas stakeholder theory provides stronger insight into long-term value creation and sustainability. The paper concludes that governance reforms should be evaluated within their institutional context rather than through universal assumptions of governance convergence.

Keywords: *Corporate Governance Reforms; Board Independence; Executive Compensation Regulation; Shareholder Value; Institutional Context; Agency Theory; Stakeholder Theory.*

1.0 INTRODUCTION

The separation of ownership and control remains one of the central problems of modern corporate governance. As corporations grow in complexity, managers may pursue personal interests that conflict with shareholders' wealth maximization objectives, thereby creating agency problems (Jensen & Meckling, 1976). In response, governments, regulators, and stock exchanges across major economies have introduced corporate governance reforms aimed at improving accountability, transparency, and managerial oversight. Among the most prominent reforms are board independence requirements and executive compensation regulations designed to strengthen monitoring and align managerial incentives with firm performance.

The importance of these reforms increased significantly after major corporate failures and the 2008 global financial crisis exposed weaknesses in board oversight, excessive executive compensation, and weak risk management systems. Consequently, regulatory frameworks such as the Sarbanes–Oxley Act and Dodd–Frank Act in the United States, revisions to the UK Corporate Governance Code, and governance reforms in Germany and Japan sought to strengthen board monitoring mechanisms and improve compensation governance. Despite these developments, disagreement persists regarding whether such reforms consistently improve shareholder value.

Shareholder value refers to the ability of a firm to generate sustainable financial returns and long-term wealth for its owners through improved market valuation, profitability, strategic growth, and reduced agency costs. In governance research, shareholder value is commonly evaluated using both market-based indicators such as Tobin's Q and abnormal returns, and accounting-based measures such as return on assets (ROA) and return on equity (ROE). However, the extent to which governance reforms contribute to these outcomes remains highly debated.

Recent studies provide conflicting evidence regarding the effectiveness of governance reforms. Some scholars argue that stronger board independence improves monitoring quality, reduces managerial opportunism, and enhances firm value, particularly in firms with high agency costs and dispersed ownership structures (Nguyen et al., 2021; Krause et al., 2022; Liao et al., 2022). Similarly, executive compensation reforms such as Say-on-Pay provisions, clawback mechanisms, and ESG-linked incentives are argued to improve pay-performance alignment and strengthen investor confidence (Correa & Lel, 2023; Iliev & Vitanova, 2021). In contrast, other studies suggest that formal independence requirements and compensation disclosures may produce only symbolic compliance without generating substantial long-term value, especially in weak institutional environments or concentrated ownership systems (Bebchuk & Tallarita, 2020; Maas, 2022). These inconsistencies suggest that governance reforms do not operate uniformly across institutional contexts.

The theoretical debate surrounding these reforms further complicates the issue. Agency theory argues that governance mechanisms such as independent boards and performance-based executive pay reduce agency costs by aligning managerial interests with shareholder objectives. Stakeholder theory, however, contends that sustainable corporate value depends not only on shareholder wealth maximization but also on balancing the interests of employees, creditors, customers, regulators, and society at large. Consequently, governance reforms may produce different outcomes depending on whether firms prioritize short-term monitoring efficiency or broader long-term stakeholder sustainability.

Although existing studies have examined board independence and executive compensation extensively, three major gaps remain in the literature. First, much of the earlier literature focused predominantly on agency theory while paying limited attention to stakeholder-oriented explanations of governance effectiveness. Second, many studies remain country-specific and fail to explain why similar reforms generate different outcomes across institutional environments.

Third, relatively limited attention has been given to integrating board independence and executive compensation regulation within a unified comparative governance framework.

This study addresses these gaps through a systematic literature review and comparative institutional analysis of the United States, United Kingdom, Germany, and Japan. By integrating agency theory and stakeholder theory, the study examines how institutional factors shape the relationship between governance reforms and shareholder value. The paper contributes to the corporate governance literature by providing a context-sensitive explanation of why governance reforms succeed in some institutional environments while producing only symbolic outcomes in others.

2.0 Literature Review

2.1 Conceptual Review

Corporate governance reforms refer to the legal, institutional, and regulatory changes introduced to improve accountability, transparency, managerial oversight, and protection of shareholders' interests within corporations. These reforms became increasingly important following major corporate scandals and global financial crises that exposed weaknesses in board supervision, executive compensation practices, and internal control systems. Governments, regulatory agencies, and stock exchanges across different countries responded through reforms aimed at strengthening governance structures and restoring investor confidence. Such reforms commonly include board restructuring, disclosure requirements, executive compensation regulation, shareholder rights protection, and enhanced monitoring mechanisms. Over time, corporate governance reforms have expanded beyond narrow shareholder protection objectives to include sustainability, ethical conduct, and broader stakeholder accountability.

One of the central mechanisms of governance reform is board independence. Board independence refers to the degree to which directors are free from managerial influence, financial dependence, or personal relationships that may compromise objective judgment and effective oversight. Independent directors are expected to monitor management decisions impartially and reduce opportunistic managerial behavior. The concept is commonly associated with the proportion of non-executive directors on the board, separation of the positions of chief executive officer and board chairperson, and independence of major board committees such as audit and compensation committees. However, contemporary governance discussions increasingly distinguish between formal independence and functional independence. Formal independence focuses on structural requirements and numerical representation, while functional independence emphasizes expertise, competence, professional experience, access to information, and the practical ability of directors to challenge management decisions effectively.

Executive compensation regulation constitutes another important dimension of governance reform. It refers to the policies, rules, and institutional arrangements governing how senior executives are rewarded within corporations. The objective of compensation regulation is to align managerial incentives with organizational performance and shareholder interests while limiting excessive or poorly structured remuneration practices. Executive compensation typically includes salaries, bonuses, stock options, equity-based incentives, pensions, and long-term performance plans. Regulatory reforms in this area emphasize transparency, accountability, and stronger pay-performance relationships. Common mechanisms include Say-on-Pay voting systems, disclosure requirements, clawback provisions, compensation committee independence, and ESG-linked incentive structures. Increasing attention has also been directed toward long-term incentive arrangements because excessive emphasis on short-term stock performance may encourage earnings manipulation, excessive risk-taking, and managerial short-termism.

The concept of shareholder value occupies a central position in corporate governance literature. Shareholder value refers to the economic wealth created for shareholders through improved profitability, market valuation, strategic growth, dividend returns, and long-term corporate sustainability. It reflects the extent to which corporate governance structures and managerial decisions contribute to wealth maximization for investors. In governance research, shareholder value is commonly assessed using both market-based and accounting-based indicators. Market-based indicators include stock price performance, Tobin's Q, abnormal returns, and market capitalization, while accounting-based measures include return on assets, return on equity, and earnings growth. While traditional governance approaches primarily focused on short-term financial returns, recent debates increasingly emphasize sustainable shareholder value creation through innovation, responsible governance, ESG performance, and long-term strategic stability.

The effectiveness of governance reforms is strongly influenced by the institutional environment within which firms operate. Institutional environment refers to the broader legal, regulatory, economic, and governance systems shaping corporate behavior and monitoring mechanisms. It includes factors such as legal origin, ownership structure, investor protection, enforcement quality, financial market development, corporate governance traditions, and shareholder activism. Institutional differences explain why similar governance reforms may produce different outcomes across countries. For example, market-oriented economies characterized by dispersed ownership structures often rely heavily on independent boards and external monitoring mechanisms, whereas stakeholder-oriented economies with concentrated ownership structures may depend more on relational governance and internal coordination mechanisms. Consequently, the institutional environment plays an important moderating role in determining whether governance reforms generate substantive improvements in shareholder value or merely symbolic compliance outcomes.

2.2 Theoretical Review

One would also have to start with an account of the theoretical controversy and tools for value creation in companies. Agency theory and stakeholder theory provide the most normative basis for assessing changes in corporate governance aimed at increasing shareholder value.

Agency theory was developed by Jensen and Meckling (1976) to explain conflicts arising from the separation of ownership and control in corporations. The theory argues that managers, acting as agents, may pursue personal interests that conflict with shareholders' objective of wealth maximization due to information asymmetry and self-interest. As a result, firms establish monitoring and incentive mechanisms to reduce agency costs and align managerial behavior with shareholders' interests.

Within corporate governance, agency theory views the board of directors as a key monitoring mechanism. The theory supports board independence because independent non-executive directors are expected to provide objective oversight and reduce managerial opportunism. It also supports the separation of the CEO and board chair roles to strengthen accountability and monitoring effectiveness. In addition, performance-based executive compensation is encouraged to align managerial rewards with firm performance and shareholder value.

Despite its relevance, agency theory has been criticized for assuming that managers are primarily self-interested and for focusing mainly on shareholders while paying limited attention to other stakeholders. Critics also argue that excessive emphasis on monitoring and financial incentives may encourage short-term decision-making. Nevertheless, the theory remains important in explaining governance reforms aimed at improving board independence and executive compensation regulation to enhance shareholder value.

Next, besides board independence, performance-based pay is another agency tool. Pay tied to financial or performance measures such as earnings growth, stock performance, or return on equity encourages value maximization. Long-term incentives and performance-based vesting make pay and performance more linked. This also supports innovations and strategic investment (Edmans et al., 2021; Bettis et al., 2022). Additionally, external governance tools like say-on-pay and clawback prevent rent extraction (Correa & Lel, 2023; Chen et al., 2021). Consequently, agency theory expects reforms to improve pay–performance sensitivity and to regulate executive compensation in order to maximize shareholder wealth.

However, agency theory faces several limitations. Its normative goal of achieving maximum shareholder wealth and financial performance, along with its assumptions about the opportunistic nature of managers who need constant monitoring, is the main criticism. Research demonstrates that too much monitoring and short-termism could lead to myopia and risk-shifting problems (Flammer & Bansal, 2022). Thus, agency theory might fail to provide any alternative explanations for managerial actions.

An alternative view can be offered by stakeholder theory that extends the ideas of Freeman (1984). According to the theory, continuous value creation implies addressing interests of all stakeholders: employees, customers, suppliers, creditors, and local community. Corporate governance should create legitimacy, trust, and sustainability instead of merely monitoring.

Under stakeholder theory, board independence continues to be important for representing interests of stakeholders, preventing groupthink, and developing strategies that involve all stakeholders. Several recent studies show that independent boards and board diversity improve firms' ESG performance and long-term outcomes (Liao et al., 2022; Amorelli & García-Sánchez, 2021). Therefore, independent directors are able to ensure sustainable value creation.

According to stakeholder theory, compensation should represent interest of stakeholders and involve different measures of performance, including ESG performance. Applying ESG criteria in the compensation system improves firms' environmental performance and valuation (Krueger et al., 2020; Flammer et al., 2023). Engagement with stakeholders is expected to be good for the stockholders.

Many differences between stakeholder and agency theories will affect expected reform outcomes. Agency theory views a firm from the point of view of interests of shareholders, emphasizing efficiency and control. Independence and compensation reforms are used as control tools. On the other hand, stakeholder theory focuses on legitimacy, relational governance, sustainability, and trust. It highlights importance of diversity, ESG-based compensation, and longer vesting.

Agency-based reforms are expected to make the board more independent, increase pay-performance sensitivity, and improve monitoring. These reforms might be beneficial in markets with good investor protection and active trading. On the contrary, stakeholder-based reforms will make the board more diverse, use ESG performance in compensations, and increase vesting period. These reforms can be helpful in concentrated or coordinated markets (Aguilera et al., 2021).

In conclusion, agency and stakeholder theories provide two contrasting visions of what firms are and how they create values. The resulting controversy gives rise to the formulation of reforms, the results of which have to be assessed according to their impact on shareholder wealth.

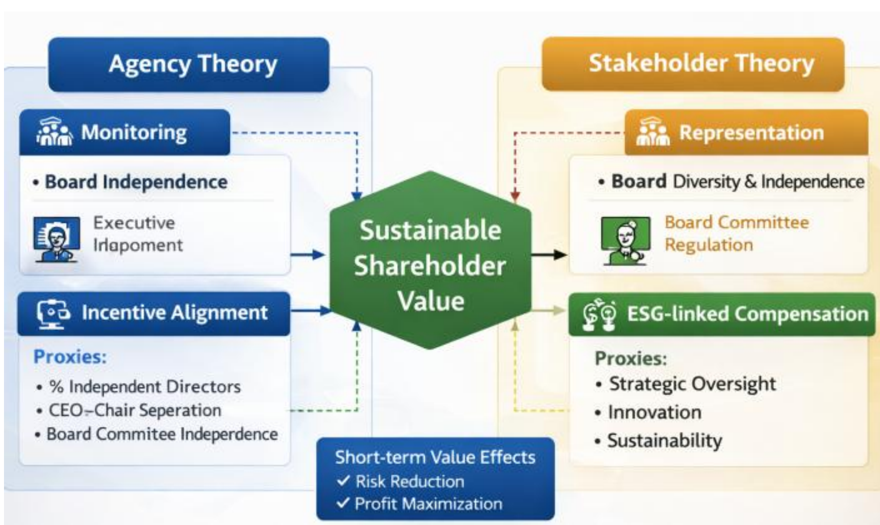

Figure 1. Agency–Stakeholder Governance Integration Model.

The above diagram is a representation of the integration framework for the theoretical approach taken in the research. This framework shows how the different agency theories' mechanisms, such as monitoring and incentive alignment, relate to the stakeholder theories' mechanisms, such as representation and environmentally, socially, and governance-based remuneration, and ultimately come together to achieve sustainability of shareholders' wealth over time.

Source: Adapted from Jensen and Meckling (1976), Freeman (1984), and Aguilera et al. (2021).

2.3 Review of Empirical Studies

The empirical connection between governance reforms and shareholder value has grown in relevance during the last two decades, but with varied findings based on different years and countries. A chronological, cross-country analysis including the most recent reforms and historical data demonstrates both convergence in governance principles and divergence in effects.

Recent studies (2022-2024) include the following themes: Say-on-Pay (SoP), the role of ESG in executive pay, and comparative effectiveness of regulations among different jurisdictions. According to Correa and Lel (2023) and using international panel data, SoP reforms align pay-performance relations and reduce excess payments, especially when implemented in stringent governance environments, producing marginal value effects through binding votes. Similarly, Iliev and Vitanova (2021) find that SoP makes boards more responsive to shareholder opposition, although pay changes depend on the ownership structure.

Another hot topic is the role of ESG in executive pay. As argued by Flammer et al. (2023) and Liao et al. (2022), pay-for-ESG leads to better sustainability metrics and higher stock prices when targets are material and independently verifiable. However, some authors warn that incentives related to ESG performance indicators can be rather symbolic, without adding real value to organizations (Bebchuk & Tallarita, 2020; Maas, 2022). This means that design issues and effective regulation matter.

Comparative studies reveal the effect of institutional environment. Aguilera et al. (2021) discover greater valuation effects in common-law, widely dispersed ownership, and highly protective economies, but smaller in civil-law, concentrated ownership environments. In addition, Krause et al. (2022) confirm that CEO duality reforms produce larger market reaction in the United States than in Germany due to better monitoring. Thus, governance reforms can add value, but their effects depend on the institutional setting.

Earlier researches (2015-2021) have provided additional information regarding board independence and pay-performance relationship. According to Nguyen et al. (2021), independent directors increase firm value in cases of high agency costs, but not when there are controlling shareholders. Moreover, Terjesen et al. (2020) prove that the positive effect of reforms occurs in conjunction with effective disclosure policies. On the contrary, excessive independence may undermine the advisory role of boards (Guest, 2009; Adams & Ferreira, 2007).

As before, the role of institutions is important. the concept that the effect of governance is conditional to its environment (e.g., legal origin, enforcement mechanisms, and type of ownership), first proposed by Aguilera & Jackson (2003), has been confirmed further. For instance, emerging markets experience higher valuation effects only in cases of credible enforcement and protection of minority interests (Bruno & Claessens, 2010). Legal origin affects the impact of reforms (Kim & Lu, 2011). The same holds for ownership structure and presence of labor representation (Doidge et al., 2017; Claessens & Yurtoglu, 2013).

Some studies on executive compensation produced conflicting results. On one hand, high sensitivity of pay-performance relations may foster long-term investments and innovation, but it may also lead to short-termism and manipulations (Edmans et al., 2017; Jensen & Murphy, 1990). Disclosure regulation helps in controlling compensation arrangements (Core et al., 2008). In turn, too much managerial power distorts contracts (Bebchuk & Fried, 2004). Improvements in clawbacks and disclosures produce small improvements in reporting and investor trust, depending on regulatory framework (Chen et al., 2021).

Foundational studies (2005-2014) indicate that Sarbanes-Oxley act positively affected oversight mechanisms and increased investor confidence in companies. At the same time, there are concerns that the act could impose extra compliance costs on small firms (Chhaochharia & Grinstein, 2007; Coates, 2007). Corporate governance quality is associated with higher firm-level performance (Bhagat & Bolton, 2008). Pay-performance relation was rather weak initially, but it became better over time with potential bias of committees (Jensen & Murphy, 1990; Bebchuk & Fried, 2004). Global indices demonstrate positive association between shareholder rights and value (Gompers et al., 2003).

Thus, three main conclusions can be drawn: independence and executive compensation reforms matter, institutions moderate outcomes, and overregulation could result in ineffective governance.

However, the debate regarding positive impacts of board independence persists; questions remain regarding ESG metrics and the nature of incentives-monitoring nexus. Such contradictions make the chosen method appropriate, including a systematic literature review followed by cross-country case analysis to assess the role of institutions in the governance-reform-shareholder value nexus.

3.0 Methods

3.1 Research Design

The research follows the design of a mixed qualitative study through a combination of a systematic review of the existing literature and a comparative case study. Specifically, the research seeks to develop theory-based and context-dependent insights about the effects of corporate governance reform, specifically those aimed at improving the level of board independence and executive compensation regulation on shareholder value in an institutional context.

Literature Review: includes only peer-reviewed publications published between 2005 and 2026, with the preference for studies done during 2020-2026. Sources are identified using the relevant databases while filtering according to such criteria as empirical and theoretical rigor in the discussion of reforms, relevance to shareholder value, and methodology details. Conceptual studies may be used where necessary.

While Cross-Country Comparative Case Study compares four countries to account for variations in their legal origin, institutional arrangements, and governance reforms. US: market orientation, rules-based governance system with dispersed ownership and strong investor protection. UK: common-law, principles-based 'comply or explain' approach. Germany: civil law and two-tier boards with stakeholder participation. Japan: hybrid, shifting towards board independence and more shareholder-centered governance.

Cross-national research enables the testing of hypotheses regarding the effect of similar reforms on shareholder value in institutional contexts that differ in terms of their legal tradition, structure of governance, and speed of reforms.

3.2 Study Population

The research is carried out using public corporations included in important stock indexes – S&P 500 in the US, FTSE 100 in the UK, DAX 40 in Germany, and TOPIX 100 in Japan. Such firms have strict requirements for information disclosure, regulatory control, and institutional monitoring and, therefore, are expected to introduce formal changes and disclose corporate governance structures as well as remuneration of directors and executives. This choice allows one to compare reform effects across jurisdictions, excluding firm-size biases and governance opacity effects to a certain extent.

3.3 Sampling Technique

A purposive sampling strategy is employed, concentrating on large publicly traded firms operating during the post-governance reform period from 2015 to 2024. This period captures the consolidation of Say-on-Pay regulations, expanded disclosure mandates, ESG-linked compensation reforms, and strengthened board independence requirements across major jurisdictions. By focusing on this contemporary timeframe, the study evaluates governance effectiveness under relatively mature regulatory conditions rather than transitional implementation phases.

Purposive sampling is analytically justified because large-cap firms are more directly affected by governance reforms, more intensively monitored by institutional investors, and more likely to face shareholder activism. This enhances the relevance of findings for global governance debates and ensures alignment with the study’s objective of assessing shareholder value implications.

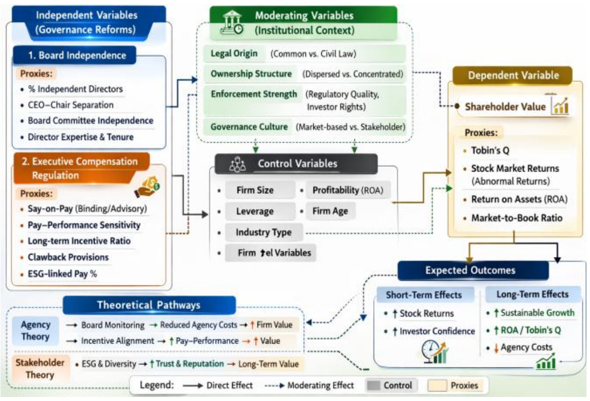

Figure 2. Conceptual Framework of Corporate Governance Reforms and Shareholder Value.
Source: Authors' conceptualization (2026), based on Jensen and Meckling (1976), Freeman (1984), and Krause et al. (2022).

The revised conceptual model of this research is depicted in Figure 2. It reflects the relationship between board independence and executive pay regulation (independent variables) and shareholder wealth (dependent variable). Institutional environment will be considered as the moderating variable, while firm-specific factors will be considered as control variables. The model integrates the perspective of both agency and stakeholder theories to capture market responses and organizational performance.

3.5 Method of Analysis

The research method is structured along four dimensions.

1) Comparative analysis focuses on themes of implementation design, execution, and enforcement in board independence and executive compensation reform. The examination of governance codes, laws, and actual practice is used to differentiate real change from window dressing.

2) International institutional comparison analyzes how legal system origins, concentration of share ownership, representation, and enforcement capability influence the effect of reforms on firm value, considering moderating factors identified in earlier literature.

3) Quantitative synthesis compiles the existing research on corporate governance performance outcomes, using peer-reviewed studies for reliability while avoiding unnecessary econometrics in favor of an integrated story.
4) Theory triangulation applies agency theory and stakeholder theory to evaluate results, whereby the former predicts cost reductions and shareholder value enhancement via improved monitoring and incentives, particularly under dispersed ownership. In contrast, the latter contends that governance changes supporting sustainability value creation, ESG incorporation, and representation benefit firm performance. Both theories offer insights into the impact of reforms on corporate performance.

This research method combines theory, quantitative data synthesis, and institutional analysis for a nuanced understanding of corporate governance reforms and their effect on shareholder value, offering a robust theoretical and empirical perspective of global governance.

Figure 3 outlines the model of institutional moderation underlying the comparative analysis dimension of the study.

Figure 3. Institutional Moderation Framework: The Role of Institutional Environment in Shaping Governance Reform Outcomes.

Source: Adapted from Aguilera et al. (2021), Claessens and Yurtoglu (2013), and Doidge et al. (2017).

The figure illustrates how institutional variables, such as legal origin, ownership concentration, enforcement strength, and corporate governance tradition, influence the relationship between corporate governance reforms (independent board and executive pay control) and firm value. The model stresses the importance of the institutional environment surrounding corporate governance reform implementation and its impact on short-term versus long-term outcomes.

4.0 Discussion of Results

Figure 4 presents the comparison between governance structures in the USA, the UK, Germany, and Japan. It illustrates the variation among legal origins, ownership systems, the extent of the enforcement process, governance traditions, board independence, and compensation governance regulation, which are all necessary considerations in terms of institutions for this analysis. This chart sets the context for discussing the difference in shareholder value between countries below.

Figure 4. Cross-Country Governance Architecture Comparison Matrix.

Figure 4 presents a comparative overview of governance structures in the United States, the United Kingdom, Germany, and Japan based on institutional dimensions frequently discussed in recent comparative corporate governance literature, including legal origin, ownership structure, governance tradition, enforcement quality, board structure, and executive compensation regulation. The governance classifications used in the matrix were developed from contemporary studies on comparative governance systems and institutional variation, particularly Aguilera et al. (2021), Liao et al. (2022), Correa and Lel (2023), and Krause et al. (2022), which emphasize that governance outcomes differ across countries because of variations in ownership concentration, investor protection, regulatory enforcement, and stakeholder participation.

The United States and the United Kingdom are commonly described as market-oriented governance systems characterized by dispersed ownership structures, shareholder-centered governance models, and relatively strong investor protection mechanisms. In contrast, Germany and Japan are generally identified as stakeholder-oriented or coordinated governance systems where ownership structures are relatively more concentrated through institutional holdings, cross-shareholding arrangements, long-term banking relationships, and relational governance practices. Germany's codetermination system and two-tier board structure further reinforce stakeholder participation, while Japan's governance framework historically reflects long-term relational and network-based corporate structures. These institutional differences influence how governance reforms operate and explain why similar reforms may generate different shareholder value outcomes across countries.

Source: Adapted from Aguilera et al. (2021), Krause et al. (2022), Liao et al. (2022), and Correa and Lel (2023).

The analysis of the literature and institutional evidence indicates that the effects of reforms aimed at improving shareholder value through governance improvement (such as board independence and executive compensation regulation) are not universal and depend on many factors.

The comparative review of existing literature and institutional evidence suggests that board independence does not produce uniform shareholder value outcomes across all governance systems. In market-based economies such as the United States and the United Kingdom, prior studies generally associate higher proportions of independent directors and separation of the CEO and chairperson roles with stronger monitoring mechanisms and improved firm performance, particularly in firms characterized by high agency costs. This interpretation is consistent with agency theory, which argues that independent boards reduce managerial opportunism and information asymmetry through more effective oversight. However, the effectiveness of board independence appears to vary across institutional environments, especially in stakeholder-oriented systems where relational governance structures and concentrated ownership remain significant. In dispersed ownership, higher independence leads to higher legitimacy and improved trust. At the same time, for coordinated or stakeholder-oriented economies, where ownership is centralized and corporate governance is tightly constrained, formal independence provides only marginal effects since overly independent board members may prove inefficient as advisers and possess insufficient firm-specific knowledge. Overall, board independence works best when other elements of corporate governance are already well developed.

The effects of executive compensation regulation on value creation also turn out to be conditional. Say-on-Pay provisions and improved disclosure increase pay-performance sensitivity and lower pay excess, especially if shareholders' voting is binding and clawback provisions improve disclosure quality. This finding corresponds to the expectations raised by agency theory as well since properly aligned incentives help to maximize profits from the business. In case shareholder activism is poor or the ownership is concentrated, Say-on-Pay provisions fail to discipline executives, while ESG-based executive compensation helps create value and improve environmental performance over time. Contrary to this, using vague ESG metrics increases the risk of greenwashing. Thus, effectiveness of compensation reform is largely determined by credible metrics and shareholder participation in governance.

Moreover, different institutional environments determine different impacts of the same reform. Legal origin, enforcement quality, trade unions and level of financial development define how effectively any governance measure can work. Namely, reforms generate better value effects in common-law legal systems, highly protective systems and dispersed ownership regimes. In case of civil-law and stakeholder-oriented legal systems, reforms interact with wider institutional arrangements; therefore, the marginal effect of reforms decreases significantly. Simply speaking, formal similarity does not mean convergence in governance effects.

There is a contradiction between symbolic and substantive reforms. It is characteristic of many countries to develop similar corporate governance codes focused on board independence, disclosure and shareholder voting rights. However, the degree of compliance with these recommendations is very diverse because lax enforcement and informal relations may cause a false impression of the enhanced governance. Similarly, reforms concerned with disclosure do not necessarily change executives' behavior. That is why the presence of formal rules and procedures does not guarantee better corporate governance and creation of shareholder value. While symbolic reforms may produce a short-term response of the market, only substantive changes with appropriate enforcement will help generate value over time.

Figure 5. Symbolic versus Substantive Governance Reform Model.

Source: Adapted from Bebchuk and Tallarita (2020), Aguilera et al. (2021), and Flammer and Bansal (2022).

This figure distinguishes between symbolic (form-over-substance) and substantive (effectively implemented) governance reforms and their differential impact on shareholder value. Symbolic reforms - characterized by nominal board changes, compliance-driven compensation policies, and weak enforcement - are associated with short-term market reactions and limited value creation. In contrast, substantive reforms - featuring independent oversight, performance-based incentives, and strong regulatory enforcement - contribute to sustainable performance, investor confidence, and long-term value creation. The model further emphasizes the moderating role of institutional context in determining whether reforms yield symbolic compliance or substantive outcomes.

The question of convergence versus divergence in global governance further complicates interpretation. On the surface, governance codes across advanced economies increasingly reflect Anglo-American standards, suggesting convergence toward shareholder-oriented models. However, deeper institutional analysis reveals persistent divergence in how reforms are interpreted and operationalized. Germany's two-tier board system, Japan's gradualist reform trajectory, and the United Kingdom's principles-based compliance regime illustrate distinct governance logics coexisting within a globally interconnected market system. Aguilera et al. (2021) argue that while regulatory frameworks may converge in form, embedded institutional complementarities sustain diversity in practice. This study's findings reinforce that conclusion: governance reforms may travel across borders, but their shareholder value effects remain locally mediated.

A further dimension concerns the temporal horizon of value creation. Market-based measures such as abnormal returns often capture short-term investor reactions to governance announcements, frequently producing positive immediate responses to independence mandates or compensation reforms (Correa & Lel, 2023). However, long-term performance outcomes are less consistent and appear to depend on strategic alignment and organizational culture. ESG-linked compensation, for example, demonstrates stronger associations with long-term firm valuation and innovation investment than with short-term stock price fluctuations (Flammer et al., 2023). These patterns suggest that agency theory explains short-term monitoring and incentive effects more effectively, whereas stakeholder theory provides greater explanatory power for long-term resilience and sustainable value creation.

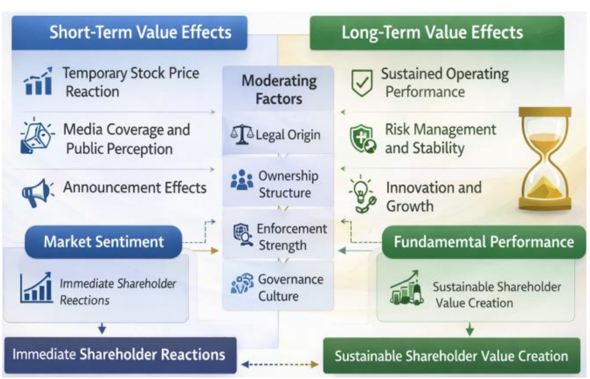

Figure 6. Short-Term versus Long-Term Shareholder Value Effects Framework.
Source: Adapted from Edmans (2020), Flammer and Bansal (2022), and Correa and Lel (2023).

The figure below differentiates between short-run market reactions and long-run operating consequences resulting from corporate governance reforms. The left-hand side depicts short-run results, such as temporary stock price reactions, media reactions, and investor sentiments following an announcement of changes. In contrast, the right-hand side depicts sustained business performance, risk stability, innovations, and value creation for shareholders. Institutional characteristics, such as origins of law, type of ownership, enforcement mechanisms, and governance culture, affect the transition process from short-run reactions to sustained value creation.

Integrated theories help to shed light on the relative advantages of separate approaches to theorizing. For example, agency theory helps to understand why pay-for-performance sensitivity increases, opportunistic behavior of managers decreases, and stock reactions are positive at higher levels of agency risk if the monitoring is crucial. By contrast, stakeholder theory provides a better basis for comprehending the positive valuation of firms adopting ESG-based executive compensation arrangements, gender diversity of boards of directors, and strategy making based on strategic thinking due to the fact that legitimacy and reputational capital gained through stakeholder engagement can provide indirect benefits for organizations.

The significance of governance reforms cannot be underestimated; however, their efficiency will depend on particular context characteristics. The positive contribution to value creation can be achieved in the cases of introducing board independence and regulating executive compensation together with well-developed institutions and high-quality regulatory practices. Otherwise, overregulation and ineffective measures can result in only symbolic compliance, advisory uselessness, and metrics gaming.

Such insights call for more context-sensitive reform and theoretical pluralism. The use of agency theory and stakeholder theory together allows avoiding extreme contrasts and obtaining a deeper understanding of the impact of governance reforms on shareholder value.

5.0 Summary, Conclusion and Policy Recommendations.

5.1 Summary

Do board independence and executive compensation regulations as parts of corporate governance reform produce a consistent positive effect on shareholder value creation? According to a systematic review, corporate governance reform matters; however, its effect differs significantly across countries, including the United States, the United Kingdom, Germany, and Japan.

The evidence shows that an increase in board independence leads to a better result in value creation but is not enough by itself. In a market economy with a dispersion of ownership and robust protection of investors' rights, independence of the board will help to reduce agency problems and thus support value creation from the perspective of agency theory (Nguyen et al., 2021; Krause et al., 2022). In a coordinated or stakeholder economy, with alternative mechanisms being used, additional independence will play a somewhat different role. Being independent does not necessarily mean being capable of effective supervision; much depends on the level of the expertise of the board and on enforcement issues as well as interactions between various institutions.

As far as executive compensation regulations are concerned, the results will also depend on the country in question. Participation of shareholders in pay determination, disclosure, and the possibility of compensation clawbacks can be useful for increasing performance sensitivity of the pay in certain cases (Correa & Lel, 2023; Chen et al., 2021). Nevertheless, it is essential for the effect to be noticeable how actively shareholders engage in these issues and what measures are taken regarding enforcement. Finally, using ESG criteria in the pay system might make it strategically valuable (Flammer et al., 2023).

5.2 Policy Recommendations

Move from Formal Independence to Functional Independence

Policymakers and regulators should shift emphasis from numerical independence requirements toward functional independence. While mandating a minimum proportion of independent directors may satisfy regulatory benchmarks, effective oversight requires directors with genuine autonomy, industry expertise, and access to reliable information. Reforms should therefore incorporate mechanisms that enhance director accountability, limit excessive tenure, strengthen committee independence, and promote diversity of skills and perspectives. Functional independence—rather than formal compliance—should become the benchmark for evaluating board effectiveness.

Link Executive Pay to Long-Term Value Metrics

Compensation regulation should prioritize long-term value creation rather than short-term financial performance. Linking executive remuneration to long-term equity vesting, innovation performance, and material ESG indicators can reduce managerial myopia and encourage sustainable strategy. Policymakers should encourage transparency in performance metrics and ensure that ESG-linked compensation is based on verifiable, financially material targets. Long-term incentive alignment is more likely to generate durable shareholder value than short-term stock price–based rewards.

Strengthen Institutional Enforcement

The effectiveness of governance reforms ultimately depends on credible enforcement. Regulatory mandates without enforcement mechanisms risk degenerating into symbolic compliance. Strengthening institutional capacity - through active shareholder engagement, independent regulatory oversight, and transparent disclosure regimes - is essential for ensuring that governance reforms translate into measurable performance outcomes. Jurisdictions seeking to emulate global governance standards should prioritize enforcement quality alongside formal rule adoption.

5.3 Theoretical Contribution

This study contributes to corporate governance scholarship in two principal ways. First, it integrates agency theory and stakeholder theory within a unified analytical framework. Rather than treating these perspectives as mutually exclusive, the study demonstrates that they explain different dimensions of governance effectiveness. Agency theory provides strong explanatory power for monitoring and incentive alignment mechanisms, particularly in dispersed ownership systems. Stakeholder theory offers greater insight into long-term value creation, ESG-linked compensation, and governance resilience. By synthesizing these theoretical lenses, the study advances a more comprehensive understanding of how governance reforms operate in practice.

Second, the study proposes an institutional moderation framework. It demonstrates that legal origin, ownership structure, enforcement strength, and governance architecture moderate the relationship between governance reforms and shareholder value. This framework moves beyond universalistic assumptions and underscores the importance of contextual embeddedness in governance analysis. It also provides a foundation for future empirical testing using multi-country panel data.

5.4 Conclusion

The corporate governance reforms designed to ensure board independence and appropriate executive compensation may help to increase shareholder value, but only in an effective institutional framework. The convergence of governance codes may not necessarily deliver results, since its success is dependent on the quality of the implementation, the ownership structure, and other forms of governance practices.

Global convergence must be handled with caution because, although adopting internationally accepted standards of good governance practice might enhance credibility and increase investor confidence, such reforms must take into consideration practical conditions to prevent window dressing and misalignment.

In light of the changing purpose of corporations and greater global awareness, governance reforms will have to be more than just formal procedures to ensure that the policies enacted actually function effectively in each individual organization.

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