The Impact of Agency Theory on Corporate Governance in Emerging Markets: A Comprehensive Review

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Abstract: This article examines the impact of agency theory on corporate governance practices in emerging markets, highlighting the unique challenges these markets face in aligning the interests of managers and shareholders. Using a narrative review approach and descriptive analysis, the study synthesizes insights from existing literature to explore how agency theory is applied in regions characterized by concentrated ownership, weak regulatory frameworks, and political interference. The review focuses on the role of agency theory in shaping board structures, executive compensation, shareholder rights, and regulatory environments, comparing governance practices between emerging and developed markets. It also addresses the limitations of agency theory in these regions due to cultural, institutional, and legal differences, and explores alternative governance theories such as stakeholder and stewardship theories. The findings reveal that while agency theory remains a valuable tool for improving corporate governance, its application in emerging markets often requires adaptation to account for local conditions. For instance, concentrated ownership and family control frequently undermine the effectiveness of independent boards and performance-based incentives. Moreover, weak shareholder protections and limited transparency exacerbate the principal-agent problem, making it difficult to implement the governance reforms that agency theory advocates. Despite these challenges, case studies from countries like India and South Africa demonstrate the potential for governance improvements when agency theory principles are applied in conjunction with regulatory reforms. The study concludes that while agency theory will continue to play a key role in shaping corporate governance in emerging markets, future research and policy should focus on adapting these principles to the unique characteristics of these economies, considering alternative governance frameworks that address the broader needs of stakeholders.

Keywords: agency theory, corporate governance, emerging markets, board structure, executive compensation, shareholder rights, regulatory frameworks, governance challenges, stakeholder theory, stewardship theory.

1. Introduction

Agency theory has long been a cornerstone in the study of corporate governance, focusing on the relationships between principals (shareholders) and agents (executives) and the conflicts of interest that may arise from these interactions. At its core, the theory explains how governance mechanisms are designed to align the interests of managers, who control the firm, with those of the shareholders, who own the firm. This conflict, often referred to as the principal-agent problem, is exacerbated when managers pursue their own goals at the expense of shareholder wealth maximization. Various governance structures, such as executive compensation schemes, board monitoring, and regulatory frameworks, are seen as ways to mitigate these conflicts [1]. Over the years, agency theory has been applied extensively to examine corporate governance in both developed and

emerging markets. However, while the governance models of developed economies are often held up as ideals, there is increasing recognition that emerging markets present unique challenges and opportunities when applying these frameworks [2].

In emerging markets, the relevance of agency theory becomes even more pronounced due to different institutional settings, weaker regulatory environments, and higher ownership concentration. Emerging economies such as those in Asia, Africa, and Latin America often experience corporate governance challenges that are not as prevalent in developed markets. For example, issues like family ownership, weak legal enforcement, and political interference create governance risks that exacerbate agency conflicts [3, 4]. These economies are also marked by rapid economic transitions, evolving capital markets, and nascent governance structures, all of which influence the application of agency theory in unique ways. The principal-agent problems in such markets are often magnified by less transparent financial reporting practices, limited shareholder rights, and the dominance of controlling shareholders, making it critical to explore how agency theory can be adapted or expanded to fit these contexts [5].

The primary purpose of this review is to provide a comprehensive analysis of how agency theory has shaped corporate governance practices in emerging markets. By examining the distinctive governance structures and challenges in these economies, the review seeks to explore the extent to which traditional agency theory frameworks are applicable. Moreover, this study aims to investigate whether emerging markets require a modified approach to governance that takes into account the unique institutional and cultural factors at play. The review also examines the role of agency theory in addressing key governance issues such as executive compensation, board composition, and shareholder rights in these regions [6].

Focusing on emerging markets is essential because these economies represent a significant portion of the global economy, and their governance practices have wide-reaching implications for global business. Many multinational enterprises are increasingly investing in these regions, and understanding how governance mechanisms function in these environments is crucial for both investors and policymakers [7]. Furthermore, the evolving nature of corporate governance in emerging markets, driven by globalization and regulatory reforms, offers a fertile ground for examining the applicability and limitations of agency theory. The review not only highlights the challenges faced in these markets but also sheds light on the opportunities for strengthening governance structures through the lens of agency theory [8].

The key research questions that drive this review include: How has agency theory influenced corporate governance practices in emerging markets? What are the unique challenges and limitations of applying agency theory in these regions, and how can these be addressed? To what extent do governance structures in emerging markets differ from those in developed economies, and what lessons can be learned from these differences? Finally, what future directions can be identified for the development of governance models in emerging markets, considering the growing importance of these economies in the global landscape? By answering these questions, this review aims to contribute to the broader discourse on corporate governance in emerging markets and provide insights for both scholars and practitioners.

2. Methodology

This narrative review employs a descriptive analysis method to examine the impact of agency theory on corporate governance in emerging markets. The methods and materials section outlines the approach used to collect, analyze, and synthesize existing literature on this topic, ensuring a comprehensive understanding of the current state of knowledge and its relevance to corporate governance practices in emerging economies.

The study adopts a narrative review methodology, which allows for a broad exploration of scholarly literature, identifying key themes, trends, and gaps within the existing body of work. A narrative review is well-suited for studies that aim to synthesize complex theoretical concepts such as agency theory and its practical applications in varying contexts. The descriptive analysis method was employed to organize and present the findings in a structured and coherent manner, focusing on theoretical development and practical insights. This method allows for a detailed examination of the various dimensions of corporate governance in emerging markets through the lens of agency theory, without the need for primary empirical data collection.

The data for this review were sourced from a wide range of scholarly articles, books, and reports available in major academic databases, including but not limited to, Scopus, Web of Science, and Google Scholar. The search strategy involved using keywords such as "agency theory," "corporate governance," "emerging markets," "principal-agent problem," "executive compensation," "shareholder rights," and "board structure." Both theoretical and empirical studies published over the last two decades were considered, ensuring the inclusion of the most relevant and up-to-date research on the subject. The selection criteria emphasized peer-reviewed journal articles, academic books, and reputable industry reports that specifically address corporate governance challenges and practices in emerging markets. Studies focusing on corporate governance in developed economies were only included for comparative analysis purposes, helping to highlight key differences and commonalities.

To ensure the relevance and quality of the literature reviewed, specific inclusion and exclusion criteria were applied. Studies that offered in-depth analysis of agency theory and its application to corporate governance in emerging markets were prioritized. Articles that provided empirical evidence, theoretical insights, or practical applications of agency theory in these regions were included. Excluded from the review were studies that dealt with unrelated governance models, those focused solely on developed markets, or papers that lacked empirical or theoretical rigor. Additionally, sources that were outdated or did not align with the scope of the study were omitted to maintain the relevance of the review.

Once the relevant literature was identified, the key themes and findings were systematically extracted. This involved summarizing the main arguments, methodologies, and conclusions of each source, while also identifying common patterns, contradictions, and gaps in the literature. Special attention was given to how agency theory is applied to corporate governance mechanisms, such as board composition, executive compensation, shareholder rights, and the regulatory environment in emerging markets. The extracted data were organized into thematic categories, which formed the basis of the descriptive analysis presented in the subsequent sections of the review. This approach facilitated a structured synthesis of the diverse perspectives found in the literature, allowing for a clear understanding of how agency theory influences corporate governance in different contexts.

3. Theoretical Framework

Agency theory is a foundational concept in the field of corporate governance, addressing the conflicts that arise from the separation of ownership and control in modern corporations. Originating from the work of Jensen and Meckling in the 1970s, agency theory posits that the relationship between shareholders (principals) and managers (agents) is fraught with challenges due to the differing interests of these two parties. The core problem in agency theory, known as the principal-agent problem, arises when managers, who are entrusted with making decisions on behalf of shareholders, act in their own self-interest rather than prioritizing shareholder value. This misalignment of incentives can lead to issues such as moral hazard, where managers engage in risky or opportunistic behaviors

that may harm the firm, and adverse selection, where managers may withhold information or make suboptimal decisions that benefit themselves at the expense of shareholders [1, 9, 10].

The principal-agent problem is further complicated by the fact that monitoring and controlling the actions of managers can be costly for shareholders. Agency costs, therefore, refer to the expenses incurred to mitigate these conflicts, including monitoring costs, bonding costs, and the residual loss that remains despite these efforts. Various mechanisms have been proposed within agency theory to align the interests of managers and shareholders, such as performance-based compensation, stringent oversight by the board of directors, and legal and regulatory frameworks designed to protect shareholder rights [11, 12]. Despite these mechanisms, agency problems persist, particularly in environments where legal protections for shareholders are weak, and corporate governance structures are underdeveloped, as is often the case in emerging markets [5].

Agency theory plays a crucial role in shaping corporate governance practices, particularly in the design of governance structures aimed at mitigating conflicts of interest between managers and shareholders. One of the most significant applications of agency theory in corporate governance is in the composition and role of the board of directors. According to agency theory, an independent and effective board is essential for monitoring the actions of management and ensuring that they act in the best interests of shareholders. In many emerging markets, however, boards often lack the independence and expertise needed to fulfill this role effectively, leading to weaker governance practices [4]. In such contexts, controlling shareholders or family-owned businesses may dominate board structures, exacerbating the principal-agent problem by allowing insiders to prioritize their own interests over those of minority shareholders [13, 14].

Executive compensation is another area where agency theory significantly influences corporate governance practices. Performance-based pay, such as stock options or bonuses tied to firm performance, is commonly used to align the incentives of managers with those of shareholders. The underlying assumption is that if managers' personal wealth is tied to the success of the company, they will be more likely to make decisions that maximize shareholder value [15]. However, in many emerging markets, weak regulatory oversight and opaque compensation structures make it difficult to enforce these practices effectively. In such environments, excessive or poorly structured compensation packages may lead to increased agency costs, as managers are incentivized to pursue short-term gains at the expense of long-term firm value [16, 17].

Shareholder rights are another critical component of corporate governance influenced by agency theory. In theory, shareholders should have mechanisms in place to hold managers accountable and protect their investments. These mechanisms may include voting rights, the ability to participate in major corporate decisions, and access to financial information [3]. However, in many emerging markets, legal and regulatory protections for shareholders are weak, and corporate governance structures often favor controlling shareholders or insiders. This imbalance in power can lead to tunneling, where insiders extract resources from the firm for their personal benefit, further exacerbating the principal-agent problem [18]. In response, agency theory advocates for stronger shareholder protections, more transparent disclosure practices, and legal reforms to ensure that minority shareholders have a voice in corporate governance [19].

In summary, agency theory provides a robust framework for understanding the conflicts of interest that arise in corporate governance and the mechanisms that can be employed to mitigate these conflicts. The theory highlights the importance of independent boards, performance-based compensation, and strong shareholder rights in aligning the interests of managers and shareholders. However, its application in emerging markets reveals significant challenges, particularly in environments where governance structures are weak, and legal protections for

shareholders are insufficient. Understanding these challenges and adapting governance practices accordingly is essential for improving corporate governance in emerging economies [8].

4. Corporate Governance in Emerging Markets

Emerging markets are characterized by economies that are in the process of transitioning from low-income to middle-income status, often experiencing rapid industrialization, economic growth, and integration into global trade systems. These markets are generally distinguished from developed economies by their relatively lower per capita income, less mature financial markets, and developing institutional frameworks. Emerging economies such as those found in Asia, Latin America, Africa, and parts of Eastern Europe are typically marked by high levels of economic volatility, evolving regulatory environments, and significant involvement of government entities in economic activities [20]. Despite their challenges, these markets are increasingly attractive to global investors due to their growth potential, expanding middle class, and opportunities for high returns on investment. However, the corporate governance structures in these markets often differ significantly from those in developed economies, as they are shaped by distinct historical, cultural, and institutional factors [3, 4].

One of the most pervasive challenges in emerging markets is the weakness of regulatory frameworks. Unlike in developed economies, where legal and regulatory systems are well-established and designed to protect shareholder rights, many emerging markets lack the comprehensive governance regulations necessary to ensure transparency and accountability. This regulatory gap makes it difficult for investors, particularly minority shareholders, to exercise effective control over corporate decisions. Without stringent enforcement of governance standards, firms may engage in practices that prioritize the interests of controlling shareholders or managers over those of the broader shareholder base [6]. In some cases, corruption and regulatory capture further exacerbate these issues, allowing powerful insiders to influence governance outcomes to their benefit, often at the expense of good governance principles [21]. As a result, agency problems are magnified in these environments, as shareholders struggle to hold managers accountable for their actions.

Concentrated ownership is another significant feature of corporate governance in emerging markets. Unlike in developed economies, where ownership is often dispersed among many shareholders, firms in emerging markets are frequently characterized by concentrated ownership structures, with a few large shareholders, such as families or government entities, controlling a substantial portion of the company. This concentration of ownership can create conflicts of interest, as controlling shareholders may use their influence to extract private benefits at the expense of minority shareholders [13, 14]. In family-owned businesses, which are particularly common in Asia and Latin America, the lines between ownership and management are often blurred, further complicating the governance landscape. While concentrated ownership can, in some cases, mitigate agency problems by aligning the interests of owners and managers, it also raises the risk of entrenchment and abuse of power by controlling shareholders, who may resist changes that could benefit the firm as a whole [22].

Political interference is a third major challenge to corporate governance in emerging markets. In many of these regions, the state plays an active role in the economy, either through direct ownership of firms or through regulatory and political mechanisms that influence corporate decisions. State-owned enterprises (SOEs) are particularly prone to governance problems, as political objectives may take precedence over the pursuit of shareholder value. This political involvement often leads to inefficiencies, as government officials may interfere in corporate decision-making processes, appoint board members for political reasons, or push for policies that serve short-term political goals rather than long-term business interests [7]. Even in privately owned firms, political

connections can play a significant role in shaping governance practices, particularly when firms rely on government contracts, subsidies, or regulatory favors. As a result, governance structures in these markets are often less transparent and more prone to conflicts of interest compared to their counterparts in developed economies [23].

In addition to these challenges, emerging markets often face issues related to inadequate disclosure practices, weak protection of minority shareholders, and a lack of robust institutional frameworks for enforcing corporate governance standards. For instance, voluntary disclosure in many emerging markets remains limited, making it difficult for investors to assess the financial health and governance practices of firms [19]. This opacity can deter foreign investment and contribute to market inefficiencies. Moreover, governance practices in emerging markets are often shaped by local cultural and institutional norms, which may diverge from international best practices. For example, in some regions, informal networks and personal relationships play a more significant role in governance than formal regulatory frameworks, further complicating the implementation of governance reforms [3].

In summary, corporate governance in emerging markets presents a complex array of challenges, driven by weak regulatory frameworks, concentrated ownership structures, and political interference. These factors often exacerbate agency problems, making it difficult to align the interests of managers, controlling shareholders, and minority investors. Despite these challenges, emerging markets offer significant opportunities for growth and development, and improving corporate governance practices in these regions is essential for fostering sustainable economic growth and attracting global investment [8].

5. Impact of Agency Theory on Corporate Governance Practices

Agency theory has profoundly shaped corporate governance practices globally, particularly in how firms in emerging markets have structured their boards of directors. According to agency theory, the board of directors serves a critical function in mitigating the principal-agent problem by monitoring management and ensuring that executive actions align with shareholder interests. In emerging markets, however, the composition and effectiveness of boards are often influenced by unique governance challenges, such as concentrated ownership and political interference. While agency theory emphasizes the need for independent, non-executive directors to provide effective oversight, many emerging market firms are characterized by boards dominated by controlling shareholders or family members [13, 14]. This dynamic can weaken the board’s ability to serve as an independent monitor, as board members may be reluctant to challenge management decisions that benefit insiders at the expense of minority shareholders [22]. Despite these challenges, agency theory continues to underscore the importance of creating balanced boards with independent directors to improve governance outcomes and protect shareholder interests [6].

Executive compensation is another area where agency theory has significantly influenced corporate governance practices, especially in emerging markets. Agency theory posits that performance-based compensation schemes, such as stock options or bonuses tied to firm performance, can align the interests of managers with those of shareholders. In theory, linking CEO pay to the financial performance of the firm incentivizes managers to make decisions that enhance shareholder value. However, in many emerging markets, weak regulatory frameworks and concentrated ownership structures complicate the implementation of such compensation schemes [15]. For instance, in family-controlled firms, executive pay is often less transparent, and compensation packages may be designed to benefit insiders rather than reflect performance. Moreover, political interference in state-owned enterprises can distort compensation structures, leading to inefficient pay practices that do not align with shareholder interests [16, 17]. Despite these challenges, the influence of agency theory persists, as firms in emerging

markets increasingly adopt performance-based compensation practices to attract foreign investment and improve corporate governance standards [1].

Shareholder rights and activism are key areas where agency theory has had a profound impact on corporate governance practices in emerging markets. According to agency theory, shareholders must have sufficient rights and mechanisms to hold management accountable, thereby reducing agency costs. In developed markets, this has led to the implementation of robust shareholder protection laws and the rise of shareholder activism as a means of influencing corporate governance. In emerging markets, however, the protection of shareholder rights often remains inadequate, with minority shareholders facing significant obstacles in exerting influence over corporate decisions [3]. Agency theory advocates for stronger legal protections for shareholders, particularly in the areas of voting rights, access to information, and the ability to challenge management decisions. Yet, many emerging markets still struggle with weak legal frameworks, allowing controlling shareholders or political interests to dominate corporate governance structures [7]. Despite these limitations, there is growing evidence of increased shareholder activism in some emerging markets, as institutional investors and minority shareholders push for greater transparency and stronger governance practices [24].

The regulatory environment in emerging markets also reflects the influence of agency theory on corporate governance practices. One of the central tenets of agency theory is the importance of regulatory oversight in reducing information asymmetry and protecting shareholder interests. Strong disclosure requirements, financial transparency, and regulatory enforcement are essential components of an effective governance system. However, in many emerging markets, regulatory frameworks are underdeveloped, leading to weak enforcement of governance standards and inadequate protection for minority shareholders [12]. Agency theory emphasizes the role of regulation in ensuring that managers disclose accurate and timely information to shareholders, thereby reducing agency costs. In response to these concerns, several emerging markets have introduced reforms aimed at improving corporate transparency and strengthening regulatory oversight [5]. For example, countries in Asia and Latin America have enacted stricter disclosure laws and improved regulatory enforcement to enhance investor confidence and align governance practices with international standards [6]. Nevertheless, the effectiveness of these reforms often depends on the strength of local institutions and the willingness of regulators to enforce governance rules impartially.

In summary, agency theory has had a significant impact on the development of corporate governance practices in emerging markets, shaping the structure of boards, executive compensation schemes, shareholder rights, and the regulatory environment. While many emerging markets face unique governance challenges, such as concentrated ownership and political interference, agency theory continues to provide a valuable framework for understanding and improving governance practices. By aligning the interests of managers and shareholders, strengthening board oversight, and enhancing regulatory frameworks, agency theory offers a path toward more effective corporate governance in these rapidly evolving markets [8].

6. Comparative Analysis: Emerging vs. Developed Markets

The application of agency theory to corporate governance reveals distinct differences between emerging and developed markets, largely shaped by their respective institutional, regulatory, and cultural environments. In developed markets, agency theory has been instrumental in guiding the creation of robust governance structures that emphasize the alignment of interests between managers and shareholders. These markets typically have well-established legal frameworks, strong enforcement mechanisms, and high levels of transparency, all of which

contribute to a more effective governance environment. The separation of ownership and control is often addressed through performance-based executive compensation, independent board oversight, and active shareholder engagement, all of which help to mitigate agency costs [3, 25]. Shareholders in developed markets also enjoy greater legal protections, with mechanisms such as shareholder voting rights, access to corporate information, and the ability to sue for breaches of fiduciary duty. These factors collectively reduce the principal-agent problem and ensure that managers are held accountable for their actions.

In contrast, emerging markets face a range of governance challenges that complicate the effective application of agency theory. The weaker regulatory frameworks, concentrated ownership structures, and prevalence of political interference in these markets create significant obstacles to aligning the interests of managers and shareholders. In many emerging economies, large controlling shareholders, often families or the state, wield substantial power over corporate decisions, undermining the independence of the board and limiting the influence of minority shareholders [4]. As a result, the mechanisms proposed by agency theory, such as independent board oversight and shareholder activism, are often less effective in emerging markets compared to developed economies. Moreover, the lack of transparency and weak enforcement of governance regulations in emerging markets exacerbate the principal-agent problem, allowing managers and controlling shareholders to engage in self-serving behavior with limited accountability [12].

One key area of divergence between emerging and developed markets is in the structure and role of boards. In developed markets, boards are generally required to have a high degree of independence from management, with non-executive directors playing a crucial role in monitoring executive behavior. Agency theory underscores the importance of such independence to prevent conflicts of interest and ensure that managerial decisions align with shareholder interests. However, in emerging markets, boards are often dominated by insiders, such as family members or government appointees, who may not have the necessary independence or expertise to provide effective oversight [13, 14]. This concentration of power among insiders limits the board's ability to hold management accountable, leading to governance failures and increased agency costs [24].

Despite these challenges, there are examples of successes in emerging markets where agency theory has been effectively applied to improve corporate governance. In some cases, regulatory reforms aimed at enhancing transparency and accountability have led to significant improvements in governance practices. For example, in India, the introduction of stricter corporate governance regulations, such as the Companies Act 2013, has helped to strengthen board independence and improve the disclosure of financial information [26]. Similarly, in South Africa, the implementation of the King Code of Governance Principles has been widely regarded as a success in promoting better governance practices, particularly in terms of board oversight and shareholder rights [12]. These reforms have been driven, in part, by the increasing integration of emerging markets into the global economy, which has created pressure to adopt international governance standards.

However, there have also been notable failures in the application of agency theory in emerging markets, where attempts to improve governance have been undermined by institutional weaknesses. In China, for instance, the combination of concentrated state ownership and weak legal protections for minority shareholders has led to significant governance challenges. While the Chinese government has introduced corporate governance reforms, such as mandating independent directors and increasing disclosure requirements, these efforts have been hampered by the dominance of state-owned enterprises (SOEs) and the lack of enforcement [23]. The prevalence of related-party transactions and tunneling, where controlling shareholders transfer resources out of the firm for personal gain, illustrates the persistent agency problems in China despite regulatory reforms [18]. Similarly, in

Nigeria, efforts to improve corporate governance have been stymied by widespread corruption and political interference, which have weakened the effectiveness of regulatory reforms and allowed corporate managers to engage in opportunistic behavior with little fear of repercussions [21].

In summary, the impact of agency theory on corporate governance varies significantly between emerging and developed markets. While developed economies benefit from strong legal frameworks, independent boards, and active shareholder engagement, emerging markets face more complex governance challenges, including concentrated ownership, weak regulatory oversight, and political interference. Nevertheless, there have been successes in applying agency theory in some emerging markets, where regulatory reforms have led to improvements in board independence and shareholder protection. However, persistent institutional weaknesses in many emerging economies continue to hinder the effective application of agency theory, resulting in ongoing governance challenges and higher agency costs [7].

7. Challenges and Criticisms of Agency Theory in Emerging Markets

Agency theory, while widely regarded as a cornerstone of corporate governance, faces significant challenges when applied to emerging markets, primarily due to the unique cultural, institutional, and legal landscapes in these regions. One of the fundamental assumptions of agency theory is that corporate governance mechanisms can be designed to align the interests of managers (agents) with those of shareholders (principals) by addressing conflicts of interest. However, this assumption often proves problematic in emerging markets, where institutional frameworks are weaker, legal protections for minority shareholders are insufficient, and cultural norms diverge significantly from those of developed economies. For example, in many emerging economies, family ownership and control are prevalent, which blurs the lines between ownership and management. In such cases, agency theory's emphasis on separating ownership and control does not fully account for the familial or social relationships that often influence corporate governance decisions [4, 13, 14].

Cultural differences in emerging markets also play a critical role in shaping corporate governance practices, challenging the universal applicability of agency theory. In countries like China and India, for instance, collectivist cultural norms prioritize relationships, loyalty, and social harmony over individualistic, profit-maximizing behavior, which is at the heart of agency theory [27]. These cultural differences can lead to governance practices that prioritize the interests of controlling families or political elites over those of minority shareholders, thereby exacerbating the principal-agent problem rather than mitigating it. Similarly, the informal networks, or guanxi, that influence business practices in many Asian markets further complicate the assumption of agency theory that rational, economically motivated behavior governs corporate decisions [23]. These informal networks often prioritize personal relationships and social capital, making it difficult to apply the standard governance mechanisms, such as board independence or performance-based incentives, that are advocated by agency theory [8].

Institutional and legal differences also pose significant challenges to the application of agency theory in emerging markets. While agency theory assumes the existence of well-functioning legal systems that enforce contracts, protect property rights, and regulate corporate behavior, many emerging markets suffer from weak legal enforcement and corruption. In countries like Nigeria, for example, governance reforms aimed at reducing agency costs are often undermined by corruption and political interference, which prevent the effective implementation of regulatory frameworks designed to protect shareholders [21]. Similarly, the lack of legal recourse for minority shareholders in markets like Brazil or Russia limits their ability to challenge management decisions or protect their

interests, further diminishing the relevance of agency theory in these contexts [22]. The weak institutional frameworks in many emerging markets make it difficult to implement the governance mechanisms that are central to agency theory, such as independent boards and performance-based executive compensation [12].

Given these cultural, institutional, and legal challenges, alternative governance theories have emerged that may provide better insights into corporate governance in emerging markets. Stakeholder theory, for example, offers a broader view of corporate governance by emphasizing the importance of balancing the interests of all stakeholders, not just shareholders. This theory argues that firms should be managed in a way that accounts for the needs of employees, customers, suppliers, and the broader community, in addition to shareholders. In emerging markets, where family ownership and state involvement are common, stakeholder theory may provide a more realistic framework for understanding governance practices that prioritize long-term sustainability and social harmony over short-term profit maximization [28]. This approach contrasts with the narrow focus of agency theory on the principal-agent relationship and may offer more nuanced solutions to governance challenges in emerging markets [29].

Stewardship theory also offers an alternative to agency theory, particularly in contexts where the principal-agent problem is less pronounced due to the alignment of interests between managers and shareholders. Stewardship theory suggests that managers, when given the appropriate levels of trust and autonomy, will act as stewards of the company, working in the best interests of shareholders and other stakeholders. This theory challenges the agency theory assumption that managers are inherently self-interested and must be monitored to align their behavior with shareholder goals. In many family-owned businesses in emerging markets, stewardship theory may offer a more accurate reflection of the governance dynamics, as family members often have a long-term commitment to the success of the company and are less likely to engage in opportunistic behavior [3, 13, 14].

In summary, while agency theory provides a useful framework for understanding corporate governance, its application in emerging markets is often challenged by cultural, institutional, and legal differences that complicate the assumptions of the theory. The prevalence of family ownership, collectivist cultural norms, and weak legal enforcement in many emerging markets limits the effectiveness of governance mechanisms advocated by agency theory, such as board independence and performance-based incentives. Alternative governance theories, such as stakeholder theory and stewardship theory, may offer more appropriate insights into corporate governance practices in these regions, as they account for the broader range of interests and relationships that influence corporate decisions in emerging markets [9].

8. Future Directions and Recommendations

The future of corporate governance in emerging markets will require both policy and practical reforms that address the unique challenges posed by these economies, while drawing on insights from agency theory. One of the most critical implications of agency theory for policy and practice is the need to strengthen regulatory frameworks and enforcement mechanisms. In many emerging markets, weak legal systems and insufficient regulatory oversight contribute to persistent governance problems, including unchecked managerial discretion, inadequate protection for minority shareholders, and conflicts of interest driven by concentrated ownership [12]. Policymakers should prioritize the development of robust legal frameworks that clearly define the rights and responsibilities of shareholders and managers, while also enhancing the capacity of regulatory bodies to enforce governance standards. Practical measures such as mandatory board independence, stricter disclosure

requirements, and performance-based executive compensation can help align the interests of managers with those of shareholders, reducing agency costs and improving governance outcomes [13, 14].

Another key recommendation for improving corporate governance in emerging markets is the promotion of shareholder activism, particularly for minority shareholders who often face significant barriers in these regions. Agency theory highlights the importance of empowering shareholders to hold management accountable, and emerging markets must focus on creating the legal and institutional conditions that facilitate such activism. This can include expanding shareholder voting rights, making it easier for shareholders to challenge management decisions in court, and encouraging institutional investors to play a more active role in governance [24]. Furthermore, enhancing transparency through improved financial disclosure and corporate reporting practices is essential. Transparent governance practices, underpinned by clear disclosure requirements, enable shareholders to make informed decisions and reduce the information asymmetry that exacerbates the principal-agent problem [8].

The role of education and training in improving corporate governance should not be underestimated. In many emerging markets, there is a shortage of directors and executives with the skills and knowledge required to navigate complex governance issues. As part of broader governance reforms, governments and industry bodies should invest in corporate governance education programs that focus on the principles of agency theory, ethical management, and effective board oversight [21]. Encouraging the adoption of international best practices in governance, while also tailoring these practices to the local context, can help emerging markets enhance their governance frameworks and attract foreign investment.

Despite the progress made in understanding corporate governance in emerging markets, several research gaps remain that warrant further exploration. One such gap is the limited understanding of how agency theory applies to specific industries within emerging markets, particularly those that are heavily influenced by state ownership or family control. For example, the energy and mining industries in many emerging markets are characterized by high levels of government involvement, and the governance challenges in these sectors may differ significantly from those in privately owned firms [29]. Future research could explore how governance practices in these industries can be improved through the lens of agency theory, focusing on issues such as transparency, resource allocation, and executive accountability [30].

Additionally, more research is needed to understand the role of cultural and social norms in shaping governance practices in underexplored regions. While there is a growing body of literature on corporate governance in major emerging economies like China and India, less attention has been paid to smaller or less economically developed markets, particularly in Sub-Saharan Africa and Southeast Asia [8]. These regions present unique governance challenges, such as the coexistence of formal and informal governance mechanisms, and they require more context-specific research to identify governance solutions that are both effective and culturally appropriate. By exploring these under-researched areas, scholars can contribute to the development of governance models that better reflect the realities of emerging markets.

Another avenue for future research is the exploration of how digitalization and technological advances are transforming corporate governance in emerging markets. As businesses increasingly adopt digital tools for decision-making, risk management, and financial reporting, new governance challenges and opportunities arise. Research could focus on the impact of technology on board oversight, the role of big data and artificial intelligence in reducing agency costs, and how digital platforms can enhance shareholder engagement and activism [25]. Given the rapid pace of technological change, understanding how these developments influence corporate governance in emerging markets will be crucial for ensuring that governance frameworks remain relevant and effective.

In conclusion, while agency theory provides a strong foundation for improving corporate governance in emerging markets, practical reforms are necessary to address the specific challenges posed by these economies. Strengthening regulatory frameworks, promoting shareholder activism, and investing in governance education are key steps that policymakers and practitioners can take to improve governance outcomes. At the same time, future research must explore underdeveloped regions, industry-specific challenges, and the role of technology in shaping corporate governance. By addressing these research gaps and implementing practical reforms, emerging markets can enhance their governance frameworks, reduce agency costs, and attract greater investment [4].

9. Conclusion

This review has highlighted the significant impact of agency theory on corporate governance practices in emerging markets. Agency theory, with its focus on addressing conflicts of interest between managers (agents) and shareholders (principals), provides a valuable framework for understanding corporate governance challenges, particularly in environments where ownership structures are concentrated, regulatory frameworks are weak, and political interference is prevalent. The principal-agent problem, which lies at the heart of agency theory, is exacerbated in many emerging markets due to family ownership, state control, and underdeveloped legal systems, making it difficult to implement the governance mechanisms that have proven effective in developed economies [4, 12].

The review has shown that while agency theory offers useful insights into corporate governance, its application in emerging markets must be adapted to account for local cultural, institutional, and legal realities. For example, the emphasis on independent board structures and performance-based executive compensation is often undermined by concentrated ownership and political ties in these regions, limiting the effectiveness of such mechanisms in mitigating agency problems. Additionally, shareholder rights and activism, key components of agency theory, are often constrained by weak legal protections and a lack of transparency, further complicating the implementation of governance reforms [23, 24].

Despite these challenges, agency theory remains a critical tool for understanding and improving corporate governance in emerging markets. The theory's emphasis on aligning the interests of managers and shareholders through mechanisms such as board oversight, executive incentives, and regulatory enforcement continues to guide governance reforms across these regions. Case studies from countries like India and South Africa demonstrate that when properly implemented, agency theory can lead to significant improvements in governance practices, particularly in terms of board independence, transparency, and shareholder protection [12, 26]. However, persistent governance failures in markets like China and Nigeria illustrate the ongoing difficulties of applying agency theory in environments where institutional weaknesses and corruption undermine its principles [18, 21].

In concluding, the relevance of agency theory in shaping corporate governance in emerging markets remains undeniable. As these markets continue to evolve, the theory provides a strong foundation for understanding governance challenges and crafting solutions that align the interests of managers and shareholders. However, the future of corporate governance in these regions will depend on the ability to adapt agency theory to local contexts, considering the unique cultural, legal, and institutional factors that influence corporate behavior. Moreover, the integration of alternative governance theories, such as stakeholder and stewardship theories, offers the potential to complement agency theory by providing a more holistic approach to governance that considers the broader range of stakeholders involved in emerging market firms [9]. As globalization, technological change, and regulatory

reforms reshape the corporate landscape, agency theory will remain a vital tool for improving governance practices, but its application must continue to evolve to meet the specific needs of emerging economies.

Authors' Contributions

Authors equally contributed to this article.

Ethical Considerations

All procedures performed in this study were under the ethical standards.

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Conflict of Interest

The authors report no conflict of interest.

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