

THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE

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Abstract

In corporate management, corporate governance is a framework that integrates accountability and control. Long-term competitiveness and better financial performance are directly impacted by this system. The purpose of this literature review is to determine how important corporate governance mechanisms—such as board composition, ownership concentration, CEO tenure, audit committees, internal controls, and information disclosure transparency affect financial performance. This research also examines the consequences of governance change for businesses and decision-makers in emerging nations such as Uzbekistan. The sources used in this study's structured thematic evaluation were selected for their relevance to agency theory, governance systems, and the development of market financial performance. This analysis demonstrates how effective company governance enhances financial performance by reducing agency costs, increasing capital availability, improving the quality of strategic choices, and boosting investor trust. Crucially, when governance measures operate as an integrated system rather than a compliance checklist, the best financial performance is attained. These conclusions apply to businesses and officials seeking governance reform in developing nations such as Uzbekistan, where investor protection is inadequate, state ownership remains predominant, and disclosure procedures are unevenly applied.

Keywords: *corporate governance; financial performance; board structure; ownership concentration; audit committee; transparency; firm value; Uzbekistan*

Abstrak

Dalam manajemen korporasi, tata kelola perusahaan merupakan kerangka kerja yang mengintegrasikan akuntabilitas dan pengendalian. Daya saing jangka panjang dan kinerja keuangan yang lebih baik dipengaruhi secara langsung oleh sistem ini. Tujuan dari studi literatur ini adalah untuk menentukan seberapa penting mekanisme tata kelola perusahaan — seperti komposisi dewan, konsentrasi kepemilikan, masa jabatan CEO, komite audit, pengendalian internal, dan transparansi pengungkapan informasi — dalam memengaruhi kinerja keuangan. Penelitian ini juga mengkaji konsekuensi perubahan tata kelola bagi pelaku bisnis dan pengambil keputusan di negara-negara berkembang seperti Uzbekistan. Sumber-sumber yang digunakan dalam evaluasi tematik terstruktur ini dipilih berdasarkan relevansinya terhadap teori keagenan, sistem tata kelola, dan perkembangan kinerja keuangan pasar. Analisis ini menunjukkan bagaimana tata kelola perusahaan yang efektif meningkatkan kinerja keuangan dengan menurunkan biaya agensi, meningkatkan ketersediaan modal, meningkatkan kualitas pilihan strategis, serta meningkatkan kepercayaan investor. Secara krusial, kinerja keuangan terbaik dicapai ketika langkah-langkah tata kelola beroperasi sebagai sistem terintegrasi, bukan sekadar daftar periksa kepatuhan. Kesimpulan ini berlaku bagi pelaku bisnis dan regulator yang mengupayakan reformasi tata kelola di negara berkembang seperti

Uzbekistan, di mana perlindungan investor masih lemah, kepemilikan negara tetap dominan, dan prosedur pengungkapan diterapkan secara tidak merata.

Kata kunci: tata kelola perusahaan; kinerja keuangan; struktur dewan; konsentrasi kepemilikan; komite audit; transparansi; nilai perusahaan; Uzbekistan

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INTRODUCTION

Corporate governance refers to the institutional arrangements through which firms are directed, monitored, and held accountable encompassing the board, ownership structures, disclosure systems, and legal protections that shape both managerial behaviour and investor confidence (Jensen & Meckling, 1976; OECD, 2023). This framework operates through three interdependent dimensions authoritative, economic, and informational that collectively shape a firm's governance quality and long-term financial outcomes (Brown & Caylor, 2006; Ronoowah & Seetana, 2023). The authoritative dimension regulates the proper distribution of authority, adequate supervision of management, and systematic risk management (Fama & Jensen, 1983; Yermack, 1996; Shakri et al., 2024). In the economic sphere, capital is allocated efficiently, and the company's integrity is maintained in the eyes of investors and creditors (Jensen & Meckling, 1976; Gompers et al., 2003; Ronoowah & Seetana, 2023). Meanwhile, in the information dimension, mechanisms are regulated so that company information is conveyed to external parties in a transparent and accountable manner (Brown & Caylor, 2006; OECD, 2023; Rashid et al., 2024).

Empirical research indicates that corporate governance standards have evolved over the past few decades. These variations can be observed in businesses operating across various industries, with a variety of owner types, and at different stages of development (Natto & Mokoaleli-Mokoteli, 2025; Shakri et

al., 2024). These conflicting research results indicate that existing empirical evidence cannot definitively establish the relationship between corporate governance and financial success, despite a strong theoretical framework. The diverse conclusions demonstrate the complexity of this relationship and its vulnerability to contextual factors, including firm size, regulatory environment, and market conditions (Rashid et al., 2024; Putra, 2024; Claessens & Yurtoglu, 2020).

This subject is particularly pertinent to Uzbekistan, where several structural reforms have recently been implemented, including modernising state-owned businesses, bolstering oversight of the financial sector, and enhancing board quality and corporate disclosure procedures. In light of this context, this article addresses three interconnected research questions: how corporate governance influences a company's financial performance; why there are differences in the relationship between these two factors in different companies and corporate environments; and what businesses and policymakers in developing nations like Uzbekistan can learn about the relationship between these two factors.

LITERATURE REVIEWS

Jensen and Meckling (1976) identified the agency problem as arising from information asymmetry between principals and agents, whereby managers who possess superior operational knowledge may exploit weak oversight to pursue self-interested behaviour.

Fama and Jensen (1983) developed this perspective and emphasised the need to distinguish between control and decision management

Shleifer and Vishny (1997) define corporate governance as the means by which financial providers ensure investment returns, shifting the conversation from the internal manager-shareholder relationship to the larger institutional framework that governs investor protection, disclosure quality, legal enforcement, and minority shareholder rights.

The OECD Principles view corporate governance as a system of relationships among a company's board, management, shareholders, and stakeholders, with an emphasis on accountability, transparency, fair treatment of shareholders, and board responsibility (OECD, 2023). Governance is therefore best understood as an institutional quality that shapes both operational discipline within the firm and the confidence outsiders place in it. Studies from developing markets are particularly useful because they explain why the link between management and performance changes in contexts where ownership is concentrated, laws are weak, and markets are still growing (Claessens & Yurtoglu, 2013).

Table 1. Summary of Important Research on Corporate Governance and Financial Performance

Author(s)	Focus	Main Argument	Implication for This Study
Jensen & Meckling (1976)	Theory of Agency	Division of ownership and control results in agency costs.	Governance matters because it reduces managerial opportunism and waste.
Fama & Jensen (1983)	Decision control	Boards and monitoring structures help separate decision-making from control.	Board quality is central to the link between governance and performance.

Shleifer & Vishny (1997)	Investor protection	Corporate governance deals with how investors get returns on investments.	Performance depends on management, external protections, and credible oversight.
Gompers, Ishii, & Metrick (2003)	Governance indices	Firms with stronger shareholder rights tend to receive higher valuations.	Governance can influence market-based performance.
Brown & Caylor (2006)	Governance ratings	Better-governed firms generally show stronger valuation and operating performance.	Governance works through multiple complementary channels.

Note. Table compiled from seminal works on corporate governance and firm performance.

In Uzbekistan, the World Bank's 2025 Financial Sector Assessment emphasises that strengthening corporate governance remains important across banks and policy institutions, including better board composition, stronger risk management, and improved reporting. State-owned banks still hold most of the country's money, meaning changes in how these banks are managed will directly affect loan disbursements, risk management, and the overall business environment (World Bank, 2025; World Bank, 2023).

METHOD

This study uses a structured literature review rather than a single-country econometric design. The purpose is to collect and synthesise the key theoretical ideas and empirical evidence on the relationship between corporate governance and financial performance in a journal-style analytical article. A structured review is appropriate because the literature spans many jurisdictions, governance regimes, and performance

indicators, and comprises both basic theory and empirical research that do not always employ the same methodologies or variables.

The review focused on sources that directly contributed to one or more of the following dimensions: agency theory and governance rationale; board structure and independence; ownership concentration and shareholder rights; CEO duality; audit committees, transparency, and disclosure; emerging market governance; and Uzbek policy or reform discussions. Peer-reviewed journals, large survey papers, and official publications from renowned organisations such as the OECD, World Bank, and IFC are given precedence.

The synthesis is narrative rather than statistical; sources were selected for their conceptual clarity, empirical rigour, or policy relevance, and were subsequently organised into five thematic clusters: governance approach, expected causal channel, typical financial results, common limitations, and relevance to emerging-market governance.

Table 2. Inclusion and Exclusion Logic Used in the Review

Included	Excluded
Studies that explain how corporate governance affects profitability, efficiency, valuation, risk, or access to capital.	Sources that mention governance only in passing without a clear analytical contribution.
Research on board structure, ownership, transparency, audit, internal control, CEO duality, or shareholder protection.	Purely descriptive company profiles or opinion pieces without evidence or conceptual depth.
Classic theoretical works and peer-reviewed empirical studies, plus high-quality institutional reports.	Promotional materials, unsourced commentary, or governance checklists with no analytical reasoning.

Recent official material relevant to Uzbekistan and the current reform debates in emerging markets.	Outdated materials whose institutional observations are no longer credible for current reform analysis.
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Note. Criteria applied for source selection in this structured review.

RESULTS & DISCUSSION

Board Structure, Independence, and Strategic Oversight

The literature strongly suggests that board quality is one of the most important links between governance and financial performance. Boards matter because they stand at the intersection of strategy, oversight, and accountability. They appoint and monitor senior management, review major investments, evaluate executive performance, approve risk appetite, and help discipline underperformance. When boards are active, competent, and independent enough to challenge management, they can improve decision quality and reduce the probability of costly strategic errors (Yermack, 1996; Brown & Caylor, 2006).

Board size illustrates the trade-off clearly. Yermack (1996) establishes a negative link between board size and firm value in large U.S. companies, suggesting that smaller boards could work better smaller groups communicate more clearly, assign tasks more effectively, and avoid the free-rider issue that typically weakens group control. However, in large, complex, or highly regulated firms, broader boards may provide expertise in finance, law, technology, audit, and industry operations that a very small board cannot easily supply.

Board independence is equally important; the strongest evidence for its value

appears where independence is paired with expertise, committee effectiveness, and an organisational culture in which challenge is acceptable rather than symbolic (Bhagat & Bolton, 2008).

Ownership Concentration, Incentives, and Shareholder Protection

The ownership structure is one of the most powerful yet ambivalent determinants of governance outcomes. In dispersed-ownership systems, the central problem is often managerial discretion. In concentrated-ownership systems, the problem may shift toward the treatment of minority shareholders and the extraction of private benefits by controlling owners. On the positive side, large shareholders have stronger incentives to monitor management and can support profitability, sharpen strategic discipline, and reduce managerial slack effects, especially important where external control mechanisms are weak (Gompers et al., 2003).

The negative side is equally well documented. When legal protections are weak, controlling shareholders may use related-party transactions, transfer pricing, preferential contracts, or unequal voting structures to shift value to themselves. Ownership concentration should therefore be assessed against disclosure quality, board independence, controls over related-party transactions, and enforcement of minority rights (Claessens & Yurtoglu, 2013; La Porta et al., 2000).

Audit Committees, Internal Control, Disclosure, and Financial Discipline

If boards represent the visible face of governance, audit and disclosure systems

represent its informational core. The literature typically suggests that stronger audit committees and better financial reporting are connected with better governance outcomes and, indirectly, higher performance. Audit committees are most effective when they are independent enough to question management, financially literate enough to comprehend reporting risk, and institutionally supported by internal and external audit systems (Klein, 1998).

The World Bank's Uzbekistan ISOEF assessment identifies fragmented information and weak transparency as real governance constraints, while the 2025 Financial Sector Assessment links stronger reporting and risk management practices to the continuing governance agenda in banks and policy institutions (World Bank, 2023; World Bank, 2025).

CEO Duality, Leadership Concentration, and Control Balance

The evidence on CEO duality is more mixed. The conventional critique is clear: when the chief executive also serves as board chair, the person being monitored also controls the agenda of the monitoring body. This may reduce challenge, weaken succession oversight, and blur accountability. Yet the literature does not uniformly find that duality destroys performance.

In some firms, especially those with strong founders or concentrated expertise, unified leadership may produce clearer direction and faster execution. A firm with duality but a genuinely independent board, strong committees, good disclosure, and disciplined oversight of ownership may still

perform well. This is a useful reminder that governance mechanisms interact, and a systems view is more persuasive than a simple one-factor conclusion (Bhagat & Bolton, 2008).

Why the Evidence is Mixed: Endogeneity, Context, and Implementation Quality

The literature does not support the claim that every governance reform immediately improves financial performance. First, causality is difficult to establish. Better firms may choose stronger governance because they are already more professional or more exposed to external scrutiny. Second, governance variables are measured differently across studies. Third, performance itself is multi-dimensional. Implementation quality also matters enormously: a formal audit committee that rarely meets, a nominally independent board dominated by insiders, or a disclosure system that produces low-quality information will not generate the same outcomes as a well-functioning governance system. Governance creates financial value by changing incentives, behaviour, information quality, and decision discipline (Rashid et al., 2024; Natto & Mokoaleli-Mokoteli, 2025).

Implications for Uzbekistan and Similar Reforming Economies

For Uzbekistan, the literature implies that corporate governance should be seen as part of the country's broader transition toward a more competitive, transparent, and investment-friendly economy. The World Bank's ISOEF evaluation for 2023 emphasises the importance of strengthening governance and accountability to improve SOE performance and clarify oversight systems.

Because the state retains a major presence in both the enterprise and banking sectors, governance reforms can have system-wide financial consequences rather than solely firm-specific effects. The real test is whether boards become more competent and independent in practice, whether audited reporting becomes more reliable, and whether enterprise strategy is evaluated against commercial and developmental objectives in a way that reduces ambiguity (World Bank, 2025; World Bank, 2023).

Table 3. Main Governance Mechanisms and Their Expected Financial-Performance Channels

Governance Mechanism	Expected Positive Channel	Main Risk or Limitation	Likely Financial Effect
Board independence and expertise	Improves oversight, strategic challenge, succession quality, and risk review.	Can become symbolic if directors are dependent, passive, or poorly informed.	Better capital allocation, stronger profitability, lower governance risk.
Ownership concentration	Creates strong monitoring incentives for major shareholders.	Can facilitate minority-shareholder expropriation if protections are weak.	Either stronger discipline or valuation discount, depending on safeguards.
Audit committee and internal control	Improves reporting quality, compliance, and early detection of problems.	Weak authority or low financial literacy can reduce effectiveness.	Lower information asymmetry, stronger lender and investor confidence.
Disclosure and transparency	Makes performance more observable and reduces uncertainty for outsiders.	Rules matter less when enforcement is weak or reporting quality is poor.	Lower cost of capital, higher valuation credibility, better financial discipline.

Separation of CEO and chair roles	Preserves monitoring independence and clarifies accountability.	May slow decisions if board-management coordination is poor.	Stronger control balance, especially when other mechanisms are weak.
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another rather than operate as separate formalities.

Governance reform is especially important for emerging and transition nations like Uzbekistan because it can affect not just firm-level outcomes but also the credibility of larger market transformation. The major practical proposal is straightforward: organisations should build governance as a performance architecture rather than a legal checklist. Policymakers can support this by including enforcement, transparency, and board professionalism in reform agendas. Organisations perform better when governance changes decision-making procedures, risk management, data reporting, and accountability enforcement (World Bank, 2025; World Bank, 2023).

CONCLUSION & SUGGESTION

This paper evaluated the relationship between corporate governance and financial performance by conducting a systematic review of foundational theory, empirical research, and recent institutional material pertinent to economic reform. The review confirms that corporate governance is associated with financial performance, but this association is conditional rather than mechanical.

Governance creates financial value by lowering agency costs, improving information quality, enabling rigorous strategic monitoring, and increasing investor and lender confidence. It adds far less value when viewed as a symbolic compliance exercise with no credible accountability.

The evidence presented leads to four basic conclusions. First, boards are most valuable when they combine expertise, independence, and meaningful participation. Second, ownership concentration is neither good nor bad; its impact depends on minority shareholder protection and disclosure quality.

Third, audit, internal control, and transparency are essential to the governance-performance link because they make performance visible and contestable. Fourth, the best results are achieved in governance systems where key mechanisms reinforce one

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