Corporate Governance Disclosure Practices in Emerging Markets: Challenges and Opportunities for Standardization

Vanishree. G.M
Asst. Professor
Sait- MBA
gmvanishree@gmail.com

Kanika
Asst. Professor
Sait- MBA
Bangalore

Introduction

Corporate governance refers to the system by which companies are directed and controlled, encompassing the mechanisms and processes that ensure accountability, fairness, and transparency in a company's relationship with its stakeholders. Effective governance frameworks are crucial for the long-term success and sustainability of corporations, as they promote ethical conduct, protect investors, and build trust in capital markets. One of the key components of corporate governance is disclosure practices, which refer to the timely and accurate reporting of financial and non-financial information to stakeholders, including shareholders, regulators, and the public.

In emerging markets, corporate governance disclosure practices are often less developed and standardized compared to those in mature economies. These markets are typically characterized by rapid economic growth, but they also face a variety of structural challenges such as weaker regulatory frameworks, lower transparency, and varied levels of enforcement. The growing integration of global markets has heightened the importance of establishing robust governance standards in these economies, as investors seek reliable information to assess risks and opportunities.

The lack of standardized disclosure practices in emerging markets presents significant challenges. These challenges include inconsistent reporting, the limited scope of disclosures, and insufficient enforcement of corporate governance norms. Many firms in these markets may be reluctant to disclose sensitive information due to competitive pressures, political interference, or a lack of shareholder activism, which can lead to opaque business practices. Moreover, the diverse legal and cultural landscapes across emerging markets further complicate efforts to harmonize governance standards.

However, there are also opportunities for standardization. Global regulatory bodies, international investors, and multilateral institutions like the World Bank and the International Finance Corporation (IFC) are increasingly advocating for uniform disclosure practices across markets. Standardized corporate governance frameworks can enhance investor confidence, improve capital flows, and promote sustainable business practices in emerging economies. Additionally, adopting global best

ISBN code 978-93-83302-71-0

practices can help local firms access international markets and attract foreign direct investment (FDI), driving economic growth.

In summary, while emerging markets face substantial challenges in implementing standardized corporate governance disclosure practices, the benefits of adopting these standards—such as enhanced transparency, improved investor trust, and long-term sustainability—make it a critical area for ongoing reform and development.

Application in Emerging Markets

In emerging markets, the corporate governance disclosure practices can be used by:

Regulatory Bodies: To benchmark corporate governance standards and enforce compliance.

Investors: To identify firms with strong governance practices and mitigate investment risk.

Companies: For self-assessment, identifying gaps, and improving governance practices.

Objectives of the Study

The objectives of this study are as follows

To understand the need to study the corporate governance disclosure practices in Emerging Markets

To identify the key sectors and Industries in India with Emerging Corporate Governance Practices and the quantitative methods used for the disclosure practices.

To evaluate the opportunities for standardization of corporate governance disclosure practices in emerging markets

To analyse the governance initiatives and reforms impacting Emerging Markets in India

Literature Review

Mulyadi Martin Surya, Anwar Yunita and Ikbal Muhammood (2012) observed that good corporate governance is based on the pillars of accountability, fairness, transparency and independence in his study **the importance of corporate governance in public sector** and concluded that community and citizens perceive that public sector corporate governance is essential in determining its service quality. Accountability, transparency and efficiency help in measuring performance of public sector.

Meenu (2012) in her paper titled **Need of Effective Corporate Governance and its challenges in India** acknowledged that corporate governance has been proving a very efficient and effective system for our economy and to save the interest of shareholders. But it requires more efficient monitoring and a transparent internal audit system which can lead to effective corporate governance

Aggarwal Krishna Gopal and Medury Yajulu (2013) in their work **"Good Governance – A tool to prevent corporate frauds"** gave various suggestive measures like ensuring appointment of independent auditor, role of professionals reviewed and regulated by respective professional bodies, effective implementation of several legislations, setting up of rating agencies would take care to enhance the chances of good corporate governance and by strengthening the fraud preventive measures.

Bansal Aishvarya and Bansal Bhavya (2014) in their paper Corporate Governance and Risk Management in Insurance Sector: A review of Literature revealed that the corporate governance practices differ according to the nature of the insurance industry, composition of board of directors, independent directors, risk taking characteristics and other such features. The study acknowledged the ever-growing importance of corporate governance and risk management in the insurance sector.

Saad Maali Ben Kachour, Jarbaui Anis (2015) concluded in his study accounting conservatism and earning time lines: Impact on corporate governance index that accounting conservatism has actually had a significantly positive effect on corporate governance index. It has also been studied that more conservative in the design of financial statements of a company is more effective practice of good governance principal.

Sridhar V.R (2015) Impact of corporate governance on financial performance of companies-A study with reference to select corporate sectors concluded in his study that in order to have moderate performance to best performance, companies should have moderate to best corporate government practices. His study has also revealed that best corporate governance practices ensure moderate performance to best performance in most of the companies like RIL, Dr. Reddy, Mahindra & Mahindra etc.

Sachdeva Sativinder Kaur, Batra G.S. and Walia Nidhi (2015) under the title Corporate Disclosure practices in selected Indian Companies asserted that there is an increase in the average score and in corporate governance index in case of all the companies. It is 14% in case of automobile sector whereas it is 20% in case of financial sector, 26% in case of FMCG sector the highest one. In case of construction sector average score is considered the lowest among all sectors.

Jha Vidhu Shekharand Mehra Vikas (2015), Corporate Governance issues, practices and concerns in the Indian context – A conceptual study addresses some of the issues and concern faced by Indian companies on the issues of corporate governance. All developments related to corporate governance have occurred after liberalization in 1991. Many large companies like TCS are doing credible work with regard to corporate governance. The ultimate objective of corporate governance is to attain the highest standard of procedures and practices followed by corporate world to have transparency in its functioning for achieving the aim of maximizing value of various share holders

Need of the Study

The study of corporate governance in emerging markets is essential for rapid Economic Expansion and to understand how corporate governance frameworks influence sustainable growth, market stability, and investor confidence. Strong corporate governance practices are essential for attracting both domestic and foreign investment. Investors are more likely to invest in companies that exhibit transparency, accountability, and ethical behaviour. Many emerging markets have experienced high-profile corporate scandals, often linked to poor governance practices. These scandals damage public trust in corporations and can destabilize economies. The role of corporate governance in emerging markets is essential for enhancing the sustainable economic development, improving market efficiency, and ensuring that corporations act in the best interests of all stakeholders.

Research Methodology

To satisfy the objectives of the research, the research methodology used for the corporate governance disclosure practices in emerging markets is exploratory and descriptive research.

Sources of Data Collection

The source of data collection used is Secondary data. Annual reports and financial statements are the sources used for the corporate governance disclosure practices in emerging markets. Apart from the Annual reports and the Financial Statements the data collection method used is various publications by financial websites, government of India, journals, newspapers, books and magazines etc.

Key Sectors and Industries in India with Emerging Corporate Governance Practices

Financial Services and Fintech

Includes non-banking financial companies (NBFCs), microfinance institutions, digital payment companies, and online lending platforms.

Technology and Start-ups

India's booming tech industry and start-up ecosystem have seen growing attention to governance practices, especially around data privacy, board composition, and investor relations.

Many start-ups are adopting strong corporate governance frameworks early on to attract global investors.

Real Estate and Infrastructure

Governance practices in this sector have traditionally been weaker, but reforms such as the Real Estate (Regulation and Development) Act, 2016 (RERA), have led to improvements.

Pharmaceuticals and Healthcare

This sector has gained global attention, especially after COVID-19, leading to heightened expectations for transparency and ethical business practices.

Corporate governance is critical given the sector's sensitivity to compliance, quality standards, and investor relations.

Renewable Energy and Sustainability-Driven Companies

As India expands its renewable energy capacity, corporate governance practices in this sector are becoming more aligned with global Environmental, Social, and Governance (ESG) standards.

Metropolitan Cities

Mumbai, Delhi, Bengaluru, Chennai, and Hyderabad are major business hubs where governance practices are more advanced due to the presence of large corporates, MNCs, and start-ups.

Tier-2 and Tier-3 Cities

Regions such as Pune, Ahmedabad, Jaipur, Kochi, and Coimbatore are witnessing a surge in business activity, especially in technology, manufacturing, and services.

Importance of Corporate Governance Disclosure

Corporate governance disclosure involves the public reporting of a company's governance practices, including information about its board of directors, executive compensation, ownership structures, risk management practices, and adherence to legal frameworks. Such disclosures are critical for reducing information asymmetry between corporate managers and external stakeholders, including investors, regulators, and the public Corporate governance disclosure involves the public reporting of a company's governance practices, including information about its board of directors, executive compensation. Such disclosures are critical for reducing information asymmetry between corporate managers and external stakeholders, including investors, regulators, and the public.

In emerging markets, where corporate governance mechanisms tend to be less mature, governance disclosure serves as a key tool for building trust and attracting both domestic and international investment in emerging markets, where corporate governance mechanisms tend to be less mature, governance disclosure serves as a key tool for building trust and attracting both domestic and international investment. Transparent disclosure practices are also linked to improved firm performance, reduced capital costs, and enhanced investor confidence.

Challenges faced in Indian Emerging Markets

Concentration of Ownership: Many Indian companies have a high concentration of ownership, leading to potential conflicts of interest and limited board independence.

Regulatory Compliance: Compliance can vary significantly across sectors and regions, leading to inconsistencies in governance practices.

Lack of Minority Shareholder Protections: Ensuring fair treatment and protection for minority shareholders remains a challenge in many family-owned and promoter-led companies.

Regional Variations: Governance standards and enforcement can differ widely between metropolitan regions and smaller cities or rural areas.

Opportunities

Emerging markets have the opportunity to adopt well-established international frameworks for corporate governance disclosure, such as the **OECD Principles of Corporate Governance or the Global Reporting Initiative (GRI).** These frameworks offer standardized guidelines that can promote transparency, accountability, and comparability across markets. Aligning local governance practices with international standards can also help emerging market firms attract foreign investments and enhance their global competitiveness.

Stock exchanges in emerging markets can play a pivotal role in promoting governance disclosure standardization. By setting governance requirements for listing companies, exchanges can ensure that firms meet minimum disclosure thresholds. For example, initiatives like the **Brazilian Novo Mercado** have successfully elevated governance standards for listed companies, creating a model that other markets can adopt.

Encouraging firms in emerging markets to adopt voluntary disclosure initiatives beyond mandatory regulations can foster a culture of transparency. Voluntary disclosures on board composition, executive compensation, risk management, and sustainability practices can serve as benchmarks for other companies, promoting higher standards of governance across the region. Firms that embrace voluntary disclosure tend to gain investor trust and attract higher capital inflows.

Introducing standardized auditing practices for corporate governance disclosures can ensure the accuracy and reliability of the information provided. External audits can verify the completeness of governance reports and offer investors' confidence that the disclosed information reflects actual governance practices. Audits based on international standards can also align emerging markets with global expectations.

Governments and regulatory bodies in emerging markets can create incentives for companies to comply with standardized governance disclosure practices. These incentives could include tax breaks, easier access to capital markets, or public recognition for firms that adhere to high standards of transparency. By rewarding companies that follow best practices, regulators can encourage widespread adoption of standardized governance disclosures

Governance Initiatives and Reforms Impacting Emerging Markets in India

SEBI's Corporate Governance Reforms: The Securities and Exchange Board of India (SEBI) has introduced several regulations over the years, such as mandatory board independence, related party transaction disclosures, and the need for key committees (audit, risk, nomination, and remuneration).

Institute of Company Secretaries of India (ICSI) Standards: ICSI has developed guidelines and codes for good governance, which are especially relevant for small and medium enterprises (SMEs) and family-owned businesses.

Adoption of ESG Standards: Indian companies, particularly in sectors such as energy, manufacturing, and consumer goods, are aligning with ESG reporting standards, leading to improvements in governance.

National Guidelines on Responsible Business Conduct (NGRBC): These guidelines, developed by the Ministry of Corporate Affairs, promote responsible business practices and better governance.

Listing Obligations and Disclosure Requirements (LODR): Applicable to listed companies, LODR mandates strict compliance with governance practices, timely disclosures, and shareholder rights protection.

Methods Used to Evaluate Corporate Governance Disclosure Practices

Point-Based Rating Scale Evaluation of Corporate Governance Disclosure Practices

A point-based rating scale evaluation of corporate governance disclosure practices is a structured assessment tool used to measure and score the quality and comprehensiveness of a company's corporate governance disclosures. This scale assigns a numerical value or score to different aspects of governance disclosures, allowing for an objective evaluation of how well a company complies with governance standards and transparency requirements.

Purpose

Assessment and Benchmarking: Provides a way to assess a company's corporate governance disclosure practices against industry benchmarks or international standards.

Transparency: Helps investors and regulators objectively assess the transparency and quality of governance reporting.

Improvement Areas: Identifies gaps or weaknesses in corporate governance disclosures, offering insights into areas that need improvement.

Quantitative method for a point-based rating scale of corporate governance in emerging markets involves using objective data and metrics to evaluate and score governance practices within firms. This approach is particularly valuable for assessing governance quality consistently across firms and industries, even in environments with varied regulatory frameworks.

Designing a Quantitative Point-Based Rating Scale

Selection of Key Governance Dimensions: Choose the primary dimensions that are most relevant for corporate governance in emerging markets, such as:

Board Structure and Effectiveness: Independence, size, board diversity, and expertise.

Audit and Risk Management: Quality of the audit committee, frequency of internal audits, and risk management frameworks.

Transparency and Disclosure: Compliance with local and international reporting standards, timeliness of financial disclosures etc

Shareholder Rights and Relations: Voting rights, dividend policies, and mechanisms for minority shareholder protection.

Executive Compensation and Alignment: Pay-for-performance alignment, transparency in compensation disclosures, and CEO-to-worker pay ratios.

Defining Quantitative Metrics for Each Dimension Establish clear, quantitative metrics to evaluate each dimension.

Board Structure and Effectiveness: Percentage of independent directors on the board, Number of board meetings per year and Percentage of women on the board.

Audit and Risk Management: Number of audit committee meetings annually and Presence of external and independent audit firms (0 = No, 1 = Yes)

Transparency and Disclosure:

Timeliness of financial report submission (e.g., number of days after the fiscal year-end).

Presence of sustainability reporting (0 = No, 1 = Yes).

Assigning a Point Scale to Each Metric Each metric is converted into a point-based system, often ranging from 1 to 5 or 1 to 10, where higher scores reflect better governance practices. For example:

Metric	Score	Point Scale
Percentage of independent directors	<30%	1
	30%-50%	3
	>50%	5
Number of audit committee meetings per year	<2	1
	2-4	3
	>4	5
Timeliness of financial report submission	>90 days	1
	30-90 days	3
	<30 days	5

Weighting of Metrics After defining the metrics and scoring scale, assign weights to each based on its significance. In emerging markets, weights might be adjusted to reflect local governance priorities and regulatory emphasis. For instance:

An example of weighting might be:

Board Structure and Effectiveness: 30%

Audit and Risk Management: 25%

Transparency and Disclosure: 20%

Shareholder Rights and Relations: 15%

Executive Compensation and Alignment: 10%

Calculating the Final Governance Score The overall governance score for a firm is calculated by multiplying the score for each metric by its weight and summing up all the weighted scores.

Establishing a Rating Scale The final governance score is then mapped to a qualitative rating scale, e.g.:

80-100: Excellent Governance

60-79: Good Governance

40-59: Average Governance

20-39: Below Average Governance

0-19: Poor Governance

Example: Quantitative Rating of a Hypothetical Firm

Dimension	Metric	Score (1-5)	Weight	Weighted Score
Board Structure and Effectiveness	Percentage of independent directors	4	30%	1.2
	Board meetings per year	5	10%	0.5
Audit and Risk Management	Number of audit committee meetings	3	15%	0.45
Transparency and Disclosure	Timeliness of financial report submission	5	20%	1.0
Shareholder Rights and Relations	One-share-one-vote policy	3	15%	0.45
Executive Compensation	CEO compensation as a percentage of net income	2	10%	0.2
Total Score				3.8 / 5

This example gives a total governance score of 3.8, which, when scaled to 100, would be 76, placing the firm in the “Good Governance” category.

ISBN code 978-93-83302-71-0

Hypothetical Calculation of Point Rating Scale System In Yellow Messenger: An Ai-Powered Conversational Customer Engagement Platform Used By Enterprises For Service And Support.

Each criterion is assigned a weight based on its importance. For start-ups, certain criteria (e.g., strategic oversight and transparency) might carry more weight than traditional areas like audit committees. A typical weighting scheme could look like:

Criterion	**Weight (%)**
Board Composition and Structure	20%
Strategic Oversight and Accountability	25%
Audit and Risk Management	15%
Transparency and Disclosure	20%
Stakeholder Management	10%
Compliance and Ethics	10%

Scoring Example for Yellow Messenger Start Up Company

Criterion	Metric	Score (1-5)	Weight	Weighted Score
Board Composition and Structure	Independent directors (%)	3	10%	0.3
	Founder-investor balance	4	10%	0.4
Strategic Oversight and Accountability	Frequency of board meetings	5	10%	0.5
	CEO evaluation framework	4	15%	0.6
Audit and Risk Management	Internal financial controls	3	7.5%	0.225
	Risk management framework	2	7.5%	0.15
Transparency and Disclosure	Regular investor updates	4	10%	0.4
	ESG considerations	2	10%	0.2
Stakeholder Management	Shareholder rights and grievance redressal	3	10%	0.3
Compliance and Ethics	Regulatory compliance	4	5%	0.2
	Code of conduct	3	5%	0.15
Total Weighted Score			100%	3.875

ISBN code 978-93-83302-71-0

Rating Interpretation

The overall governance score (e.g., 3.875) can then be mapped to a qualitative rating scale for interpretation:

4.5 – 5.0: Excellent Governance

4.0 – 4.49: Strong Governance

3.0 – 3.99: Good Governance

2.0 – 2.99: Fair Governance

1.0 – 1.99: Weak Governance

Use of the Point Rating Scale by Start-ups

Attracting Investors: Start-ups in Bangalore use structured governance evaluations to showcase their maturity and readiness for larger rounds of funding.

Internal Improvement: The framework can help start-ups identify gaps in their governance practices, prioritize improvements, and track progress.

Investor and Board Oversight: Investors and boards can use the ratings to monitor governance evolution as the start-up grows.

Challenges in Implementing a Governance Rating Scale for Start-ups

Limited Resources: Early-stage start-ups may lack the resources to implement robust governance frameworks.

Scalability of Governance: Governance practices must be scalable as the start-up transitions through different funding rounds and stages of growth.

Founder Control: Many start-ups in Bangalore have strong founder control, making it challenging to implement independent governance mechanisms.

This system provides a structured way to evaluate and improve governance practices in start-ups, helping them scale responsibly and attract long-term investment.

Findings

Corporate governance disclosure varies widely across emerging markets due to differing regulatory frameworks and enforcement levels.

In many emerging markets, regulators struggle to enforce governance standards, leading to minimal or symbolic compliance by firms.

Firms with concentrated ownership, such as family-owned businesses and state-owned enterprises (SOEs), often disclose less governance information, reducing transparency.

The absence of a unified disclosure framework across emerging markets hinders comparability of corporate governance practices between countries and companies.

Some firms voluntarily adopt higher disclosure standards, particularly when seeking international investment or listing on foreign exchanges, showcasing good governance practices.

Transparent and standardized disclosure practices are linked to higher investor confidence.

Cross-country collaboration among regulators and international bodies could help establish common disclosure guidelines tailored for emerging markets.

Conclusion

Corporate governance disclosure practices in emerging markets are crucial for enhancing transparency, reducing agency problems, and attracting investment. While these markets face challenges related to weak regulatory frameworks, concentrated ownership structures, and fragmented reporting standards, there are significant opportunities for improvement. The adoption of international governance standards, the promotion of voluntary disclosure, and the use of digital reporting platforms offer promising avenues for standardizing governance disclosure practices in emerging markets.

Standardization is essential for enabling cross-country comparisons, improving investor confidence, and integrating emerging markets into the global financial system. By addressing the challenges and leveraging the opportunities for standardization, firms in emerging markets can enhance their governance practices, attract investment, and contribute to sustainable economic growth.

Reference

Mulyadi Martin Surya, Anwar Yunita and Ikbal Muhammood (2012)

Meenu (2012) Need of Effective Corporate Governance and its challenges in India

Aggarwal Krishna Gopal and Medury Yajulu (2013) in their work “Good Governance – A tool to prevent corporate frauds”

Bansal Aishvarya and Bansal Bhavya (2014) in their paper Corporate Governance and Risk Management in Insurance Sector: A review of Literature

Saad Maali Ben Kachour, Jarbaui Anis (2015), accounting conservatism and earning time lines: Impact on corporate governance index that accounting conservatism

Sridhar V.R (2015) Impact of corporate governance on financial performance of companies-A study with reference to select corporate sectors

Sachdeva Sativinder Kaur, Batra G.S. and Walia Nidhi (2015) under the title Corporate Disclosure practices in selected Indian Companies

Jha Vidhu Shekharand Mehra Vikas (2015), Corporate Governance issues, practices and concerns in the Indian context – A conceptual study

india.gov.in/topics/industries/corporate-governance

www.oecd.org/en/topics/policy-issues/corporate-governance

www.sciencedirect.com

www.cgi.org.uk

www.researchgate.net