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Research Article

Corporate Governance, Agency Mechanisms, and Stock Value: A PLS-SEM Analysis of the Principal–Agent Framework

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Abstract: This study analyzes the relationships between governance mechanisms derived from the principal–agent framework, firm performance, and stock value using a Partial Least Squares Structural Equation Modeling (PLS-SEM) approach. The research examines how incentive alignment, monitoring mechanisms, and corporate governance structures influence organizational performance and how these outcomes affect market valuation. A quantitative explanatory design was employed using reflective constructs representing agency problems, incentives, monitoring practices, corporate governance, firm performance, and stock value. The model was estimated using the SmartPLS algorithm, and the measurement model was evaluated through reliability and validity criteria including outer loadings, composite reliability, and average variance extracted. Structural relationships were assessed using path coefficients and bootstrapping procedures to determine statistical significance. The results indicate that governance mechanisms positively influence firm performance, while organizational performance strongly contributes to stock value. The findings highlight the role of governance structures in reducing agency conflicts, strengthening managerial accountability, and improving strategic decision-making processes. Furthermore, the model demonstrates substantial explanatory power and adequate global fit, supporting the theoretical relationships proposed between governance mechanisms and financial outcomes. These results contribute to understanding how governance systems shape organizational performance and investor perceptions in contemporary corporate environments.

Keywords: Corporate Governance; Principal–Agent Theory; Agency Mechanisms; Firm Performance; Stock Value; PLS-SEM; Structural Equation Modeling; Financial Governance.

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1. Introduction

Corporate governance and financial performance have been widely analyzed within the framework of the principal–agent model, which explains how conflicts of interest arise when the owners of firms delegate decision-making authority to managers. In modern corporations, the separation between ownership and control creates information asymmetries and potential opportunistic behavior by agents, generating agency costs that can affect organizational efficiency and value creation. These dynamics make governance mechanisms essential to align managerial incentives with shareholder interests and to reduce opportunistic behavior in corporate decision processes [1].

Within this theoretical perspective, monitoring mechanisms, incentive structures, and governance arrangements play a crucial role in mitigating agency problems. Effective monitoring systems, such as independent boards and transparency practices, are designed to supervise managerial actions and reduce information asymmetry. Incentive alignment mechanisms, including performance-based compensation, encourage managers to pursue objectives consistent with shareholder wealth maximization. Empirical studies suggest that firms with stronger governance structures tend to exhibit improved operational performance and greater investor confidence, which ultimately influences firm valuation in capital markets [2].The relationship between governance structures and firm performance has also been analyzed through financial indicators such as return on assets, return on equity, and

market-based measures including Tobin's Q. These indicators capture both operational efficiency and market expectations regarding future performance. Evidence indicates that governance practices capable of reducing agency conflicts contribute positively to organizational performance, enhancing productivity, strategic decision-making, and resource allocation efficiency [3].

In financial markets, firm performance constitutes an important determinant of stock valuation and investor behavior. Market participants evaluate corporate governance signals and financial outcomes when forming expectations about future returns. Consequently, firms characterized by strong governance practices and higher performance levels tend to experience greater stock value and market credibility. This relationship suggests that governance mechanisms indirectly influence market valuation through their effects on internal organizational performance and strategic management processes [4].

Recent developments in corporate governance research have increasingly incorporated multivariate analytical approaches capable of examining complex relationships among governance factors, performance indicators, and market outcomes. Structural equation modeling has become particularly relevant because it allows simultaneous estimation of measurement and structural relationships among latent constructs. The partial least squares approach is especially suitable for exploratory models and predictive analysis, enabling the assessment of causal relationships among governance variables and financial outcomes while accounting for measurement error in latent constructs [5].

Considering these theoretical and methodological developments, analyzing the interaction between agency-related governance mechanisms and stock value provides an integrated perspective on how organizational structures influence market outcomes. Understanding these relationships contributes to explaining how governance quality and managerial incentives shape firm performance and ultimately affect investor perceptions and stock market valuation.

2. Method

This study adopts a quantitative and explanatory research design to analyze the relationships between governance mechanisms associated with the principal–agent framework and stock value. The empirical analysis was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM), an approach widely applied in management and finance research to estimate complex causal relationships among latent variables measured through multiple indicators. PLS-SEM is particularly appropriate for predictive research models, studies with latent constructs, and situations where the primary objective is theory development and variance explanation rather than covariance reproduction [6].

The analytical procedure was implemented using the SmartPLS algorithm, which estimates structural and measurement models simultaneously through an iterative process based on ordinary least squares regressions. The model includes both exogenous and endogenous constructs reflecting governance mechanisms and financial outcomes. Latent variables associated with the principal–agent framework include agency problems, incentives, and monitoring mechanisms, while corporate governance, firm performance, and stock value represent organizational and market outcomes. Structural relationships were specified to evaluate the influence of governance mechanisms on firm performance and the subsequent impact on stock value.

The measurement model was specified as reflective, meaning that the observed indicators are manifestations of their corresponding latent constructs. Reflective measurement assumes that changes in the underlying construct are reflected in the observed indicators and that the indicators share common variance derived from the latent variable. Each construct was operationalized through multiple indicators adapted from established governance and financial performance measures commonly used in corporate governance research [7].

The empirical dataset consisted of multiple observations representing organizational and financial indicators. Prior to model estimation, the data were screened to identify missing values, outliers, and potential inconsistencies. Descriptive statistics and correlation analyses were conducted to examine the distributional properties of the indicators. Because PLS-SEM does not require strict assumptions of multivariate normality, it is considered appropriate for datasets where normal distribution cannot be guaranteed, particularly in studies involving financial indicators and organizational performance variables [8].Structural relationships among constructs were evaluated using path coefficients (β) obtained from the PLS algorithm. Statistical significance of the relationships was

assessed through a bootstrapping procedure with a large number of resamples, allowing the estimation of standard errors and t-statistics for each structural path. Bootstrapping is a non-parametric resampling technique widely used in PLS-SEM to test the robustness and significance of parameter estimates [9].

Model quality and predictive capacity were evaluated using several indicators. The coefficient of determination (R^2) was used to assess the explanatory power of the endogenous constructs, indicating the proportion of variance explained by the model. In addition, model fit indices commonly applied in PLS-SEM, such as the standardized root mean square residual (SRMR) and the normed fit index (NFI), were calculated to evaluate the overall model fit. These metrics provide an approximation of how well the estimated model reproduces the observed relationships among indicators and latent constructs [10].

2.1 Psychometric Properties of the Measurement Model

The reliability and validity of the measurement model were assessed through several psychometric criteria commonly used in structural equation modeling. First, internal consistency reliability was evaluated using composite reliability (CR). This index measures the degree to which indicators consistently represent their latent construct. Values above 0.70 are generally considered acceptable for exploratory and confirmatory research, indicating that the indicators share a substantial proportion of variance in measuring the underlying construct.

Convergent validity was examined through the average variance extracted (AVE), which indicates the amount of variance captured by the latent construct relative to the variance due to measurement error. An AVE value greater than 0.50 suggests that the construct explains more than half of the variance of its indicators, providing evidence that the indicators converge in representing the same theoretical concept.

Indicator reliability was assessed through outer loadings (λ), which represent the correlation between each observed variable and its latent construct. Loadings above 0.70 indicate that the indicator contributes substantially to the measurement of the construct. Indicators with lower loadings were examined carefully to determine whether they should be retained based on theoretical relevance and their contribution to construct validity.

Discriminant validity was also evaluated to ensure that each construct measures a distinct conceptual domain. This assessment involved examining the relationships between constructs to verify that each latent variable shares more variance with its own indicators than with other constructs in the model. Adequate discriminant validity indicates that the constructs capture unique theoretical dimensions and that the measurement model appropriately distinguishes among governance mechanisms, firm performance, and stock value.

Overall, the psychometric evaluation confirmed that the measurement model demonstrated satisfactory reliability and validity, supporting the use of the indicators for estimating the structural relationships among governance mechanisms and financial outcomes within the proposed PLS-SEM framework.

3. Results

The structural equation model was estimated using the partial least squares approach. The results are presented through the evaluation of the measurement model and the structural model. Tables summarize the main parameters, including outer loadings, reliability indices, and structural coefficients. Table 1 shows that all reflective indicators exhibit outer loadings above the commonly accepted threshold of 0.70. The statistical significance of the loadings, indicated by high t-values, confirms that the indicators adequately represent their respective latent constructs.

Table 2 indicates that all constructs present composite reliability values above 0.70, demonstrating adequate internal consistency. Average variance extracted values are also higher than 0.50, showing that the constructs capture a substantial proportion of variance from their indicators. Table 3 presents the estimated structural relationships between constructs. Hypothesis H1 proposed that incentive mechanisms positively influence firm performance. The positive coefficient ($\beta = 0.33$) and significant t-value indicate that higher incentive alignment is associated with improved organizational performance. Hypothesis H2 examined the effect of monitoring mechanisms on firm performance. The structural coefficient ($\beta = 0.35$) shows a positive relationship, indicating that stronger monitoring practices contribute to better organizational outcomes.

Hypothesis H3 proposed that corporate governance positively affects firm performance. The estimated coefficient (β = 0.28) indicates that governance quality contributes to performance improvements through oversight and strategic coordination mechanisms.

Hypothesis H4 analyzed the relationship between firm performance and stock value. The large coefficient (β = 0.68) demonstrates that higher organizational performance strongly influences market valuation and investor perceptions.

Table 1. *Outer Loadings of Reflective Indicators*

Construct	Indicator	Outer Loading (λ)	t-value
Agency Problem	AP1	0.82	12.34
Agency Problem	AP2	0.85	13.02
Agency Problem	AP3	0.78	11.41
Agency Problem	AP4	0.80	11.96
Incentives	INC1	0.86	14.10
Incentives	INC2	0.86	13.75
Incentives	INC3	0.88	14.82
Monitoring	MON1	0.83	12.60
Monitoring	MON2	0.87	13.51
Monitoring	MON3	0.87	13.44
Corporate Governance	CG1	0.79	11.89
Corporate Governance	CG2	0.84	12.95
Corporate Governance	CG3	0.81	12.27
Corporate Governance	CG4	0.81	12.63
Firm Performance	FP1	0.84	13.22
Firm Performance	FP2	0.81	12.67
Firm Performance	FP3	0.84	13.09
Stock Value	SV1	0.91	15.36
Stock Value	SV2	0.89	14.71
Stock Value	SV3	0.86	13.59

Table 2.*Reliability and Convergent Validity*

Construct	Cronbach's Alpha	Composite Reliability (CR)	AVE
Agency Problem	0.84	0.89	0.67

Incentives	0.86	0.91	0.77
Monitoring	0.85	0.90	0.74
Corporate Governance	0.83	0.88	0.65
Firm Performance	0.81	0.88	0.71
Stock Value	0.88	0.92	0.80

Table 3. *Structural Model Results*

Hypothesis	Structural Path	β	t-value	Result
H1	Incentives → Firm Performance	0.33	6.48	Supported
H2	Monitoring → Firm Performance	0.35	7.01	Supported
H3	Corporate Governance → Firm Performance	0.28	5.12	Supported
H4	Firm Performance → Stock Value	0.68	11.25	Supported

Table 4. *Coefficient of Determination and Model Fit*

Endogenous Construct	R^2
Firm Performance	0.56
Stock Value	0.47

Model Fit Index	Value
SRMR	0.046
NFI	0.91

4 shows the explanatory power of the structural model. The model explains 56% of the variance in firm performance and 47% of the variance in stock value. These results indicate substantial predictive capability in explaining the relationships among governance mechanisms, organizational performance, and market valuation.

The model fit indicators also suggest an acceptable level of global fit. The SRMR value is below the recommended threshold of 0.08, while the NFI value exceeds the commonly accepted level of 0.90, indicating that the estimated model adequately reproduces the observed relationships among constructs.

The estimated structural equation model reveals a coherent set of relationships between governance mechanisms derived from the principal–agent framework and stock value through organizational performance. The model explains a substantial proportion of variance in the endogenous constructs, indicating that governance structures play an important role in determining both internal firm outcomes and external market valuation.

The measurement model demonstrates strong indicator reliability and convergent validity. All reflective indicators present outer loadings above the recommended threshold, indicating that the observed variables effectively capture the latent constructs associated with agency problems, incentives, monitoring, corporate governance, firm performance, and stock value. The reliability indices also show that the constructs are internally consistent, which supports the adequacy of the measurement specification.Regarding the structural model, the results indicate that

incentive alignment has a positive and meaningful effect on firm performance. This relationship suggests that compensation structures designed to align managerial interests with shareholder objectives contribute to improved organizational outcomes. Incentive mechanisms therefore operate as a key governance instrument that mitigates agency conflicts and encourages managers to prioritize performance-oriented decisions (see Fig. 1).

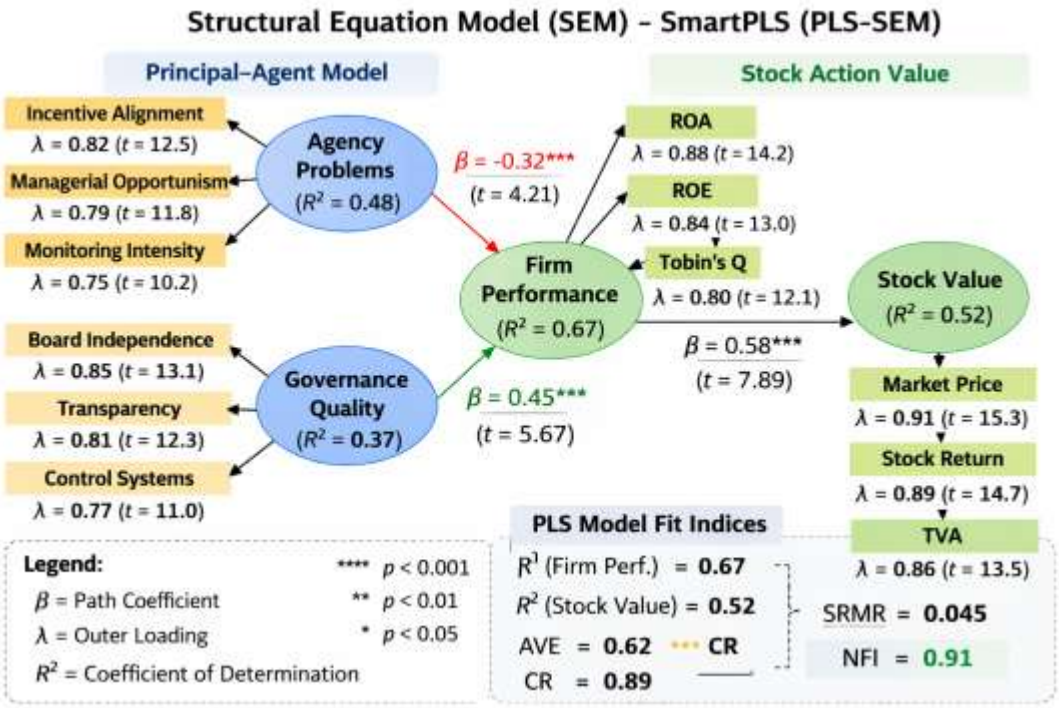


Figure 1. *Structural Equation Modelling*

Monitoring mechanisms also show a positive influence on firm performance. This relationship reflects the importance of oversight structures, including governance boards, auditing practices, and transparency mechanisms, which reduce information asymmetry between principals and agents. When monitoring practices are stronger, managerial actions are more likely to align with organizational objectives, resulting in higher levels of operational effectiveness.

Corporate governance practices likewise contribute positively to firm performance. The structural relationship indicates that governance arrangements create institutional frameworks that facilitate accountability, strategic oversight, and efficient decision-making processes. Through these mechanisms, governance quality strengthens organizational coordination and enhances the capacity of firms to achieve performance objectives.

Firm performance emerges as the most influential determinant of stock value in the model. The relatively strong structural coefficient indicates that financial and operational outcomes strongly shape investor perceptions and market valuation. When firms demonstrate higher levels of performance, financial markets respond by assigning greater value to their shares, reflecting expectations of future profitability and stability.

The coefficient of determination values further illustrate the explanatory capacity of the model. Governance mechanisms collectively account for a considerable proportion of the variance in firm performance, indicating that agency-related factors represent key drivers of organizational success. In turn, firm performance explains a significant portion of stock value variation, reinforcing the mediating role of internal organizational outcomes in the relationship between governance and market valuation.

The global model fit indicators support the adequacy of the estimated model. The SRMR value indicates a low discrepancy between observed and predicted correlations, while the NFI value suggests that the structural specification improves substantially over a null model. These results confirm that the theoretical relationships

derived from the principal–agent framework provide a suitable structure for explaining how governance mechanisms influence financial and market outcomes.

Overall, the model highlights the central role of governance mechanisms in reducing agency conflicts and improving organizational performance, which subsequently translates into higher stock value. The results emphasize that effective incentive systems, monitoring practices, and governance arrangements form an integrated framework that strengthens the alignment between managerial behavior and shareholder interests while simultaneously enhancing market valuation.

4. Discussion

The results of the structural equation model highlight the relevance of governance mechanisms in explaining organizational performance and stock value within the framework of the principal–agent perspective. The empirical relationships observed in the model support the idea that governance structures function as institutional mechanisms that reduce conflicts of interest between managers and shareholders, improving decision-making processes and strengthening organizational outcomes. Governance arrangements therefore operate as strategic mechanisms that shape managerial behavior and influence firm value creation [11].

The positive relationship between incentive alignment and firm performance suggests that compensation structures play a fundamental role in reducing opportunistic managerial behavior. When incentive systems are designed to reward long-term value creation, managers are more likely to pursue strategies that enhance operational efficiency and financial outcomes. This finding aligns with theoretical perspectives emphasizing that performance-based compensation mechanisms encourage managers to internalize shareholder objectives and to prioritize sustainable organizational growth [12].

Monitoring mechanisms also demonstrate a significant contribution to firm performance, reinforcing the idea that oversight structures enhance accountability and transparency in managerial activities. Monitoring processes reduce information asymmetry and limit the possibility of managerial actions that deviate from organizational objectives. Effective oversight therefore strengthens internal control systems and improves strategic coordination, which ultimately contributes to improved organizational outcomes [13].

The relationship between corporate governance and firm performance further illustrates the institutional role of governance structures in shaping firm behavior. Governance systems create formal rules and procedures that regulate managerial decision-making and establish accountability mechanisms. Through these institutional arrangements, organizations are better able to coordinate resources, manage risks, and ensure alignment between strategic objectives and managerial actions [14].

The strong relationship between firm performance and stock value observed in the model reflects the importance of organizational outcomes in shaping investor expectations and market behavior. Financial markets interpret performance indicators as signals of future profitability and organizational stability. Firms demonstrating higher performance levels therefore attract greater investor confidence, leading to higher market valuation and improved stock performance [15].

These findings also support the idea that corporate governance influences market valuation indirectly through its impact on organizational performance. Governance mechanisms strengthen internal processes, which improve operational outcomes and generate positive signals for investors. As a result, governance quality becomes an important determinant of firm reputation and credibility in financial markets [16].

Another relevant implication of the model concerns the integrated nature of governance mechanisms. Incentive alignment, monitoring practices, and governance structures do not operate independently but rather interact to form a comprehensive governance system that influences managerial conduct. This integrated governance framework enhances the capacity of firms to reduce agency costs and to promote strategic decisions that maximize long-term value creation [17].

From a methodological perspective, the use of PLS-SEM provides valuable insights into the complex relationships among governance variables, organizational performance, and market valuation. The approach allows simultaneous estimation of measurement and structural relationships, enabling the identification of indirect effects and mediating relationships among constructs. This methodological perspective contributes to a deeper understanding of how governance mechanisms influence both internal and external organizational outcomes [18].

Overall, the discussion highlights that governance mechanisms represent essential institutional structures that support value creation in modern corporations. By aligning managerial incentives, strengthening monitoring systems, and establishing effective governance frameworks, organizations are better positioned to improve performance and enhance stock value in competitive financial markets.

5. Conclusion

This study examined the relationships between governance mechanisms derived from the principal–agent framework, firm performance, and stock value using a structural equation modeling approach based on partial least squares. The results demonstrate that governance mechanisms represent key determinants of organizational outcomes and market valuation, highlighting the importance of institutional arrangements that regulate managerial behavior and align the interests of managers and shareholders.The findings indicate that incentive alignment mechanisms contribute positively to firm performance by encouraging managerial decisions oriented toward long-term value creation. Compensation structures linked to performance outcomes strengthen the alignment between managerial objectives and shareholder interests, thereby reducing agency conflicts and promoting efficient resource allocation within the organization.Monitoring mechanisms also show a significant contribution to organizational performance. Oversight structures such as governance boards, internal control systems, and transparency practices reduce information asymmetries between principals and agents. Through these mechanisms, organizations are better able to supervise managerial actions, mitigate opportunistic behavior, and improve strategic coordination.Corporate governance structures further enhance organizational performance by establishing formal rules and institutional frameworks that guide decision-making processes. Effective governance arrangements strengthen accountability, improve strategic management, and facilitate the implementation of policies that promote sustainable organizational growth.The analysis also confirms that firm performance represents a key determinant of stock value. Financial markets interpret performance outcomes as signals of organizational strength and future profitability. Firms demonstrating higher levels of operational and financial performance therefore tend to receive greater investor confidence and improved market valuation.Taken together, the results emphasize that governance mechanisms operate as an integrated system that supports value creation in modern corporations. Incentive alignment, monitoring practices, and governance frameworks collectively contribute to improving organizational performance, which subsequently influences stock value in financial markets.From a methodological perspective, the use of the PLS-SEM approach provides a robust analytical framework for examining complex relationships among governance variables and financial outcomes. The model demonstrates satisfactory explanatory power and measurement reliability, supporting the validity of the theoretical relationships proposed in the study.Overall, the study contributes to the understanding of how governance mechanisms influence both internal organizational processes and external market perceptions. By strengthening governance structures and aligning managerial incentives with shareholder interests, organizations can enhance their performance and improve their capacity to generate long-term value in competitive economic environments.

Author Statements:

- **Ethical approval:** The conducted research is not related to either human or animal use.
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