



# CORPORATE GOVERNANCE MECHANISMS AND FINANCIAL DISTRESS: A REVIEW AND DIRECTIONS FOR FUTURE RESEARCH

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## Abstract

Recent business failures highlight the importance of good corporate governance in mitigating financial distress. Strong governance frameworks mitigate agency conflicts, increase accountability, and foster organizational stability. This research uses a comprehensive literature review and bibliometric analysis to examine the relationships among corporate governance, earnings management, and financial distress. With an emphasis on developing nations [with the exception of one study by Kuzey et al (2023), the evaluation examines journal articles published from 2000 to 2025 obtained from multiple sources [such as ScienceDirect]. High leverage, concentrated ownership, weak board structures, weak audit committees, a lack of regulatory oversight, and company-specific attributes like size, age, and growth all contribute to financial distress, according to the findings. Furthermore, the findings imply that companies with robust governance frameworks are less likely to manipulate earnings and to experience financial difficulties. These revelations highlight the importance of corporate governance in promoting accountability, openness, and long-term organizational stability. This study offers recommendations to regulators, policymakers, and corporate executives in charting the development of governance frameworks in emerging markets.

**JEL Classification:** M10, M14, M19

**Keywords:** Risk Reduction, Earnings Manipulation, Financial Distress, and Corporate Governance Procedures.

## 1. INTRODUCTION

Recent years witnessed an increasing attention by researchers on causes and consequences financial distress due to towering corporate scandals worldwide (Arora & Singh 2025; Bravo-Urquiza & Moreno-Ureba, 2021; Candra & Joni, 2025; Chatterjee et al., 2023; Dash & Dey, 2025; Mensah & Boachie. 2023). Growing cases of corporate failures, including scams, accounting frauds, and misuse of corporate power, has prompted the corporate world to implement effective control mechanisms, and one such mechanism is corporate governance (CG). There is unanimity among academic scholars and practicing managers that CG is a key regulatory and managerial framework to reduce, if not eliminate financial distress (Abhilash et al., 2023; Nguyen et al., 2024; Hangarabhima, 2023). CG is an array of standards and procedures that serve as a fundamental standard for all firms' effective control mechanisms. CG is the set of procedures and frameworks used to manage and oversee a corporation (Handa, 2018). To ensure that the interests of shareholders, management, and other stakeholders are aligned, businesses are governed through a variety of systems, procedures, and relationships. With the increasing complexity of global business environments, the significance of effective governance has grown, particularly in mitigating agency conflicts, enhancing transparency, and promoting long-term sustainability (Biswas et al., 2022; Rajab & Schacher, 2009). Among more cited corporate scandals is Enron, followed by WorldCom, necessitated the organizations to implement efficient corporate governance practices at the global level. Since corporations in



developing countries typically lack strict governance mechanism to monitor the actions of CEOs and the top management team, a robust CG structure is essential to ensure greater transparency and reduce financial discrepancies and mismanagement leading to corporate financial distress and failure (Ahdal et al., 2020).

This study is aimed at conducting a systematic literature review (SLR) by examining the relationship between CG outcomes and financial distress. We are motivated to conduct this SLR primarily for the following reasons: First, there is mounting evidence that a strong CG results in low probability of financial distress (Buchetti et al., 2024; Li et al., 2020; Pandey et al., 2022; Truong, 2022; Younas et al., 2021). Second, with growing empirical data and interest, a comprehensive review of empirically validated studies enables to identify the key areas of research that remained under explored (Pandey et al., 2022). Third, as some latest researchers contend there is a lack of coherence of CG constructs, frameworks, and definitions leading to contradictory findings (Aguilera & Castillo, 2025). Therefore, lack of a comprehensive and interdisciplinary approach to investigating the relationships among company financial hardship, CG, and their effects motivated us to conduct this SLR. In summary, the overarching objective of this study is to provide a SLR with structural representation of current research activities, recommendations for policy makers and practitioners, suggestions for future research.

This systematic literature review (SLR) makes several contributions to the burgeoning literature on corporate governance. First, this study provides a comprehensive overview of empirical evidence on the relationship between CG and the financial crisis. As opposed to the previous reviews have mainly focused on financial distress, financial factors, ratio analysis, and cash flow analysis (Fawzi et al., 2015; Seretidou et al., 2025), this study unpacks the findings of earlier research by synthesizing studies based on different outcomes and methods of analysis (Tron et al., 2022). Second, this SLR opens up a platform for ongoing discussions about CG and financial distress in different contexts. As the research on CG and financial distress is largely fragmented, viewing empirical findings through the lens of SLR provides insights into the current research and future directions. Since success of organizations largely hinges upon the effective CG mechanism (Guluma, 2021), a SLR on CG provides a roadmap for organizations to identify the areas that deserve special attention. A well-structured and efficient CG undoubtedly plays a major role in enhancing investor confidence by promoting ethical conduct, reducing the likelihood of fraud, and ensuring compliance with legal and regulatory requirements. Further, CG leads to improved access to financing, lowering capital costs, and steer operational performance

### ***1.1 Rationale for the present study and research questions***

While a strong CG enhances productivity and performance, weak CG makes a firm more vulnerable and may lead to lowering the probability of success and increase financial distress. Extant research reported that risky choices, conflicts of interest, and managerial misconduct arising from ineffective governance can lead to a company's bankruptcy (Eugster et al., 2024; Younas et al., 2021). Governance components like CEO renewal and board stability are highly predictive of a company's ability to recover from financial difficulties (Salvi et al., 2024). On the similar lines, Xiaoran (2025) argued that harmonious shareholder-creditor relations facilitate a smoother resolution of financial difficulties and a lower chance of bankruptcy. Furthermore, research from developing nations shows that companies with strong governance structures—such as independent directors—perform well (Arora, 2024). Strong ownership control, suggesting a decreased likelihood of distress, and substantial ownership control indicating lower distress in firms (Wu & Dong, 2020). However, poor or poorly designed

governance can exacerbate managerial opportunism, agency conflicts, and ineffective oversight (Darko et al. 2016). Decisions may be skewed toward immediate managerial or personal benefits rather than long-term financial stability when boards lack independence or CEOs have many duties (Bicksler et al. 1996). Some studies documented that the potential problem in CG is lack of clear-cut accountability of CEOs and their self-entered actions (Ammar & Gafsi, 2021). Another problem associated with the governance mechanism is related to the board composition consisting of multiple directorships, promoter ownership, institutional ownership, and CEO duality (Duru et al., 2016). Though some recent studies found that board independence, size, gender diversity, and meeting frequency have no discernible effects on business risk-taking (Tiwari & Jha, 2025), weak governance certainly reflects underperformance of companies. The results of earlier studies, therefore, remain inconsistent and scattered. As mentioned before, ineffective governance practices can increase financial vulnerability and undermine stakeholder trust, even though strong governance can protect businesses from trouble. As a result, given the growing need to deepen understanding of the connection between CG and financial distress, this study addresses the following research questions (RQs):

RQ1: What does the existing literature reveal about the relationship between CG and financial distress?

RQ2: What are key themes the future studies should investigate with regard to CG and financial distress?

## 2. LITERATURE SCREENING

Preferred Reporting Items for Systematic Reviews and Meta-Analysis (PRISMA) Methodology is used to select the literature. The identification phase of the PRISMA process involved finding relevant articles across a range of databases; screening eliminated articles that did not meet the initial criteria; eligibility involved a more in-depth review to ensure quality and relevance; and inclusion involved including articles that met all criteria in the final review. These protocols ensure that only pertinent, high-quality studies are included in the review (Abhilash et al., 2023). To conduct SLR, we followed five-step process proposed by Gerhardt et al (2025). Figure 1 captures the five-step process.

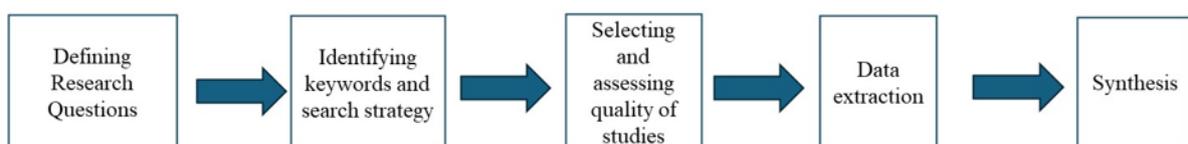


Figure 1: SLR steps

Source: Gerhardt et al (2025)

### 2.1 Inclusion and exclusion criteria

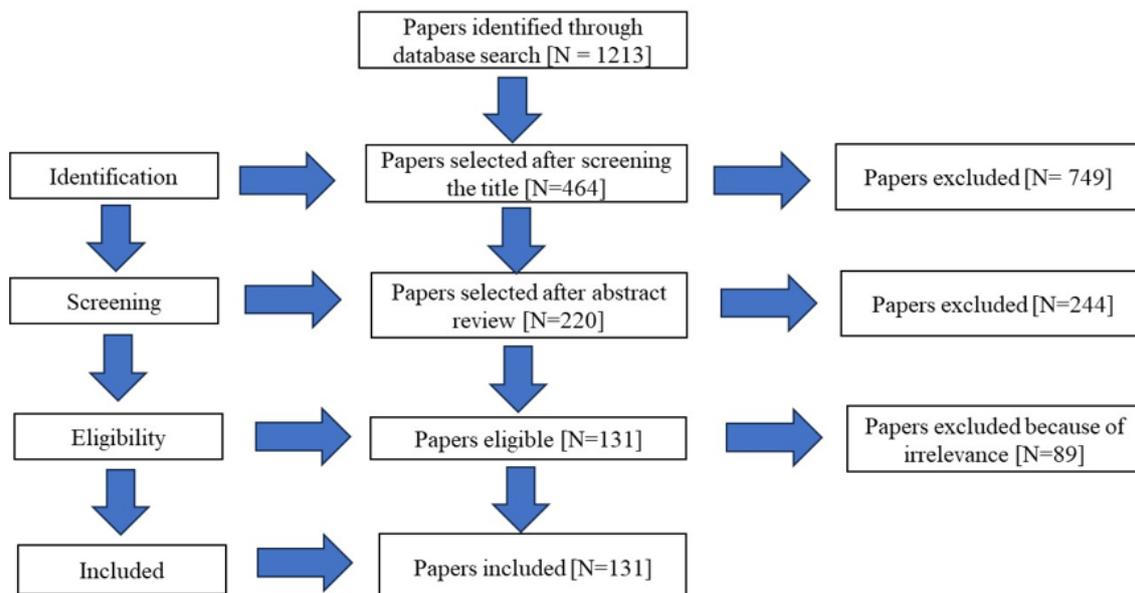
Since the purpose of this study is to unravel the relationship between CG and financial distress, the inclusion and exclusion criteria is defined first. We selected the major variables consisting of companies' ownership structures, audit committees, board compositions, and financial distress of companies. More specifically, we included full-length papers that satisfy the following requirements: (a) a primary focus on CG determinants; (b) an examination of the relationship between financial distress levels and governance determinants; (c) publication in reputable journals from 2000 onward, reflecting increased relevance following the global financial crisis, major corporate collapses in US markets, and recent accounting scandals in

emerging economies; (d) empirical research published in academic, double-blind peer-reviewed journals, journals listed in ABDC and Scopus database; and (e) published in English. We excluded book chapters.

## 2.2 Search strategy

In this step 2, we conducted an online literature search limited to articles that have the terms “CORPORATE GOVERNANCE” AND “CORPORATE FINANCIAL DISTRESS” OR “CORPORATE COLLAPSE” AND “EARNINGS MISCONDUCT” OR “BUSINESS”. The different sets of search terms were combined in search machine, with Boolean “AND” and “OR” operators. To achieve more accurate results, we applied advanced Boolean search operators, including wildcards, quotation marks, 'adj', publication date, material type, language, and country of origin. Additionally, we used snowballing to identify further keywords and synonyms.

In the first screening, we excluded 120 articles based on their titles and articles, next, 227 articles were assessed, out of which 97 were excluded due to exclusion matched the first two criteria, irrelevant to the current study, only business, management, finance & economics were chosen as subject as part of study. After close examination against criteria laid out above, in Step3, we selected 131 articles that remained in scope for our literature review. The literature search, selection process and justified reasons for excluding articles from our study are depicted in Figure 2.

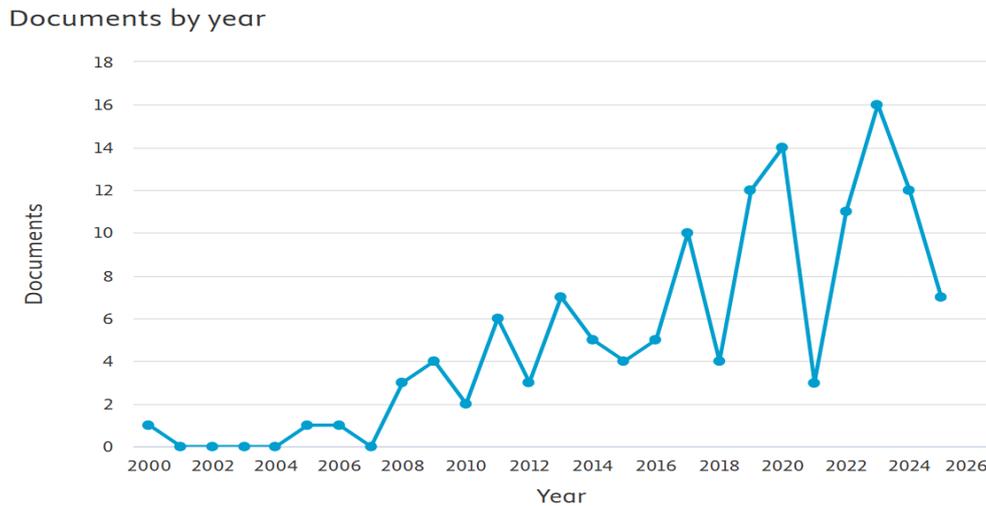


**Figure 2: Flowchart of the systematic literature search and the selection process**

## 2.3 Coding

We analysed the 131 studies by compiling the individual studies in a file, considering all information such as titles, study authors, the journals and the databases. In this step, we examined the abstracts and full texts of the papers chosen and then further coded them accordingly to specific themes and criteria. Further each article was reviewed to facilitate the patterns identified in the study. Figure 3 captures the total number of articles published in each year from 2000-2025. Table 1 displays the journals, along with the names of the authors. Table 2 summarized highly cited research papers. Further Table 3 contains an overview of the characteristics of the research study. Finally, we recorded (a) sample size based on industry, (b)

research methods (qualitative, quantitative, and mixed methods), (c) country-wise studies, and (d) based on the outcomes. In summary, this study provides a distinctive research design by employing a thematic analysis to explore the relationship between CG and the determinants influencing firms' financial distress outcomes. This review reveals four important areas: (a) earnings management, (b) gender diversity, (c) ownership structure, (d) board size and composition, (e) CG, and (f) company performance.



**Figure 3: Research papers published year-wise**

### 2.4 Analysis

This section describes the advances in the extant literature addressing the publications 'distribution over time, seeking to examine the growth of research interest in CG. The topic of CG is relatively new, as shown in Figure 3, with the first academic publication appearing in 2000. As expected, the studies have gained their importance after the global financial crisis, particularly since 2016-2017. This sharp increase in the number of years is a sign of strong recognition and interest in CG research among the academic community.

### 2.5 Journals

From 2000 to 2025, 79 journals published 131 articles on CG. The top ten journals with research-related articles are shown in Table 2. From the 131 documents, it can be seen that the following journals correspond to important publishing sources: Corporate Governance (12), Journal of Financial Reporting and Accounting (5), Corporate Board Role Duties and Composition (4), Cogent Business & Management and Corporate Ownership & Control (3), and the remaining journals registered about two papers each in the CG field. Emerald was the publisher of the majority of these journals. Corporate Governance has the highest Cite Score (10.2). The subsequent ones appear in that order. "Business, Management, and Accounting" is the primary discipline area, followed by "Economics, Econometrics, and Finance."

**Table 1: Journals and cite scores**

No.	Journal	Publisher	Cite Score	Discipline / area
1	Corporate Governance	Emerald	10.2	Business, Management and Accounting
2	Journal of Financial Reporting and Accounting	Emerald	9.2	Business, Management and Accounting
3	Journal of Accounting in Emerging Economies	Emerald	6.9	Business, Management and Accounting

4	Corporate Ownership and Control	Virtus Interpress	0.2	Business, Management and Accounting
5	Cogent Business and Management	Cogent OA	4.9	Business, Management and Accounting
6	Corporate Board Role Duties and Composition	Virtus Interpress	0.5	Business, Management and Accounting (miscellaneous)
7	Journal of Governance and Regulation	Virtus Interpress	1.9	Economics, Econometrics and Finance
8	Managerial Auditing Journal	Emerald Publishing	5.2	Economics, Econometrics
9	Emerging Markets Finance and Trade	Taylor & Francis	6.1	Economics, Econometrics and Finance
10	Accounting Research Journal	Emerald Publishing	4.8	Economics, Econometrics and Finance

**Table 2: Top highly cited research papers with regard to corporate governance**

No.	Authors	Title	Journal	Citations
1	Kelton and Yang (2008)	The impact of corporate governance on Internet financial reporting	Journal of Accounting and Public Policy	260
2	Chen et al (2005)	Ownership concentration, firm performance, and dividend policy in Hong Kong	Pacific-Basin Finance Journal	228
3	O'Sullivan (2000)	The impact of board composition and ownership on audit quality: Evidence from large UK companies	British Accounting Review	191
4	Yatim et al (2006)	Governance structures, ethnicity, and audit fees of Malaysian listed firms	Managerial Auditing Journal	178
5	Puni and Anlesinya (2020)	Corporate governance mechanisms and firm performance in a developing country	International Journal of Law and Management	152
6	Saona et al (2020)	How do the ownership structure and board of directors' features impact earnings management? The Spanish case	Journal of international Financial Management and accounting	132
7	Chalmers et al (2018)	Internal control in accounting research: A review	Journal of Accounting Literature	131
8	Hae (2009)	Determinants of audit report lag: Does implementing corporate governance have any impact? Empirical evidence from Egypt	Journal of Applied Accounting Research	130
9	Farooque et al (2019)	Board, audit committee, ownership and financial performance – emerging trends from Thailand	Pacific Accounting Review	122
10	Darko et al (2016)	Corporate governance: the impact of director and board structure, ownership structure and corporate control on the performance of listed companies on the Ghana stock exchange	Corporate Governance	108

### 3. THEMES

#### 3.1 *Ownership structure*

Ownership is one of the most-studied governance variables in financial distress literature. Within this broad area, three ownership types dominate: concentrated/controlling owners (families, institutions), managerial ownership, and institutional/foreign ownership. Ownership structure plays a pivotal role in determining the likelihood of financial distress. Whereas deeply ingrained managerial, politically influenced, or overly complicated family ownership structures increase risk, concentrated, institutional, and foreign ownership typically mitigates distress.

The effects are context-dependent, non-linear, and mediated by the level of governance. A better understanding of these dynamics can improve the design of CG, risk management, and financial stability at the firm and market levels. To accomplish CG objectives, the ownership structure is one governance mechanism considered. It is used to adjust control and balance the interests of all stakeholders (Nie & Ye, 2022).

Businesses with managers who own a larger portion of the company are much less likely to face financial difficulties. Businesses with sizable external investor holdings—such as large blockholders—are less likely to experience economic problems. This is probably because these shareholders keep a close eye on management and enforce rules, which helps to stop less-than-ideal behaviour. High levels of institutional shareholding are not associated with a lower risk of distress, unlike managerial or large-block ownership.

#### 3.2 *Ownership concentration*

It is very important to maintain balance in the ownership concentration. Heavy ownership concentration has the possibility of generating agency-principal problems and increase opportunistic behavior. Therefore, it is essential to see the ownership concentration should discourage opportunistic behaviour and improving monitoring. Over-concentration can result in risk-shifting, entrenchment, and the expropriation of minority shareholders, all of which raise the likelihood of distress (Nguyen et al., 2015). Businesses with highly concentrated ownership are more likely to experience difficulties (Gerged et al., 2022).

#### 3.3 *Managerial ownership*

Though strategic management literature exhaustively documented about the effects of managerial ownership on firm performance (Short & Keasey, 1999), in financial distress literature the governance issues raised by the separation of ownership from control, the ability of managers to align their interests with those of shareholders through stock ownership has re-emerged as an important research topic. The results of the study suggest that management ownership appears to be an effective governance tool to prevent companies from having unreasonably high debt levels, especially in developing countries with weaker CG mechanism and poor institutional frameworks (Lubis et al., 2025).

Managers with high level of ownership are more likely to possess confidential information about improved company performance and may exhibit risk-avoiding behavior at the cost of company performance. For example, if managers know confidential information about the company's favourable prospects and think the company is less likely to experience financial difficulties in the future, they will possess a large portion of the company's shares. Institutional shareholder activism helps management improve its long-term performance by focusing on the long run rather than short-term or annual success (Donker et al., 2009).



There is often a non-linear relationship between insider ownership and distress. By aligning managers with shareholders, low-to-moderate managerial ownership lowers the likelihood of hardship. Financial trouble is more likely when managers at very high levels get entrenched, implement riskier tactics, and oppose restructuring.

### ***3.4 Institutional ownership***

Institutional investors play a dual role. Long-term and active institutional investors enhance governance, improving financial stability. On the other hand, transient institutions focused on short-term returns may encourage excessive risk-taking, increasing the probability of distress. On other hand, Daily and Dalton, (1994) discovered that the likelihood of bankruptcy is decreased by institutional shareholdings. We discover that committed institutional investor ownership leads to better CG traits, more accurate future firm valuation, and better long-term firm performance.

Institutions with lower portfolio turnover enhance the governance and long-term performance impacts, whereas investors with higher portfolio concentration enhance the valuation effects. In particular, we discover that long-term institutions can achieve long-term performance: on a risk-adjusted basis over the next year, firms with more long-term institutional investors beat firms with less of them by 2.8% (Borochin & Yang, 2017).

The primary conclusions demonstrate the poor shareholding stability of institutional investors with greater business ties, risk preferences, and performance ranking intensity. Institutional investors that do not have a risk preference are subject to substantial investment restrictions under the reform, while institutional investors who do have a risk preference are not. Firm factors and institutional investors' natural endowment alternate in terms of substitution and interaction (Chung et al., 2024; Han et al., 2021) discover factual proof that managers are prevented from engaging in earnings management by major institutional shareholders (Alam et al., 2024).

### ***3.5 State ownership***

State-owned enterprises may face soft budget constraints, political interference, and weak incentives for efficiency, leading to higher financial distress. Conversely, implicit government guarantees may lower default probabilities in certain contexts (Miążek, 2021). In state-owned enterprises, the model of CG is radically different from other non-state-owned counterparts.

### ***3.6 Foreign ownership***

Foreign ownership is associated with superior managerial practices, technology transfers, and stronger disclosure standards, which reduce financial distress. In emerging markets, foreign investors play a stabilizing role due to better access to global financing. Additionally, there is strong evidence that enhanced CG results from increased foreign ownership in companies from weak CG regimes.

According to this data, nations with weak corporate and securities laws will have an incentive to improve and reinforce them as the number of possible foreign investors increases and the barriers to international share investing are reduced (Fox, 2016). We demonstrate that in order to comprehend how foreign ownership affects businesses, it is essential to distinguish between various types of foreign owners and take into account their origins (Roedder & Schmid, 2025).

### ***3.7 Board composition***

According to Adams (2017), boards are intricate organizations whose primary responsibilities are to oversee and counsel executive management. There have been challenges in the literature

when measuring the value of directors and, consequently, the board (Burt et al., 2019). In this study, we observed two board attributes—size and independence—that have been thoroughly studied in the literature. Corporate boards are crucial in keeping an eye on management decisions and they are effective in minimizing agency issues (Naheed et al., 2022).

### ***3.8 Boards of directors***

Since the board of directors is a crucial component of CG, it is obvious that its structure must be responsive to the fundamental duties handed down to it: monitoring and supervising, preventing executives from acting opportunistically, and advising decision makers to enhance business management.

Martín and Herrero, (2018) found that a large board of directors frequently has a strong internal management system and stringent internal control. The board of directors could decrease earnings manipulation by using their superior information and management monitoring capabilities to provide helpful information on profitability (Nguyen et al., 2021).

### ***3.9 Board size***

Numerous studies have demonstrated that large boards may devote more time and energy to managing (Bicksler et al., 1996; Lipton & Lorsch, 1992) and improve the transparency of accounting reports (Klein, 2002; Xie et al., 2003). Consequently, earnings management is limited. Some early researchers contend that larger boards may face bureaucracy, competing interests, increased earnings management, and challenges with coordination and communication (Jensen & Meckling, 1976; Lipton & Lorsch, 1992). Larger boards may have conflicts within the board members hampering their efficiency in controlling the firm. Often, size of board may restrict the capacity to offer advice, make choices, and take part in strategic planning (Dimitropoulos & Asteriou, 2009).

This opinion seems to be supported by the actual data with most research showing a substantial negative correlation between board size and business performance. A "one size fits all" approach to board size could potentially enhance inefficient governance if larger boards truly "cause" worse performance (Guest, 2008).

### ***3.10 Board independence***

The board's oversight function is typically linked to board independence. An independent director is better positioned to monitor and question the company's management because they have no financial or familial ties to the CEO or the company (Crocì et al., 2023). Since most independent directors are managers or decision-makers who frequently work across multiple organizations, their reputations are important to them (Nguyen & Nielsen, 2010).

They can carry out some tasks more effectively since they are independent of the company, which lowers agency expenses and boosts business performance, and vice versa. It was documented by Shan (2019) that firm performance is inversely impacted by board independence. Additionally, they are technically skilled in both management and decision-making.

Their independence from management increases the fair representation of shareholders' interests. Three decades back, Beasley (1996) found a negative correlation between the probability of financial fraud and outside (independent) company directors, indicating that the probability of financial fraud falls as the number of independent directors rises.

### ***3.12 Audit committee, disclosure and transparency***

Audit committees perform an essential oversight function to guarantee corporate accountability and high-Caliber financial reporting. The audit committees oversee accounting and financial operations, including internal and external auditing and financial reporting. An active audit committee has a significant impact on the financial performance of companies. For example, in some studies conducted on banks, it was found that management can improve bank performance through an effective audit committee (Khalid et al., 2020; Salloum et al., 2014).

### **3.13 Earnings management and financial distress**

Companies in financial distress frequently engage in earnings management, a tactic that manipulates financial reports to give stakeholders a more positive impression (Agrawal & Chatterjee, 2015). Companies in financial distress should be very concerned about earnings management because, while it may temporarily shield them from negative financial indicators, it may eventually cause more serious problems if stakeholders discover the manipulation (Viana et al., 2022).

To keep the integrity of financial reporting and market confidence, investors, regulators, and auditors must understand the reasons and methods behind earnings management. Stakeholders can more accurately evaluate a company's financial health and make wise decisions by identifying the warning signs of earnings management (Nagar & Sen, 2018).

Earnings management is more prevalent among distressed companies; nevertheless, the outcomes vary depending on whether earnings management or distress measures are used. The conclusions have important ramifications for creditors and investors. When assessing a company's creditworthiness, they must consider this, as companies in even mild financial distress may engage in earnings management to conceal their actual financial situation (Rakshit et al., 2021).

There are two primary strategies used in earnings management during financial distress: Accrual Earnings Management (AEM) and Real Earnings Management (REM). AEM involves manipulating accounting estimates and judgments to alter reported earnings without affecting cash flows (Rejeb et al., 202). On the other hand, REM involves making operational decisions that affect cash flows, such as altering production schedules or delaying investments to boost reported earnings in short term (Suhail & Gopaldaswamy, 2024).

## **4. BIBLIOMETRIC ANALYSIS**

The multidimensional approach [using keywords] is presented in Figure 4. As shown in Figure 4, the growing corpus of research on CG reveals strong connections among ownership, board structure, performance, and reporting. The main topics of CG research are still being studied.

The fundamentals like board size, independence, CEO duality, ownership structure, and audit committees are still in place. They are closely related to outcomes such as firm performance, earnings management, and financial distress. Over the years, new passions have also surfaced.

More research is being done these days on topics like International Financial Reporting Standards (IFRS) compliance, executive compensation, financial risk, investment behaviour, independent directors, audit quality and broader governance practices. The field is growing, combining traditional governance concepts with contemporary concerns about sustainability and accountability, as evidenced by newer interests in corporate social responsibility, intellectual capital and report analysis. Even though traditional theories like agency theory and resource dependency theory still dominate much of the conversation.

**Table 3: Various studies [with details of journals, population, industry, country, method, design, variables, category, and findings]**

Sl. No	References	Journal	Population	Industry	Country	Method	Design	Variables	Category	findings
1	Rohman and Suhardianto (2024)	Accounting Analysis Journal	886 firm	Non-financial firms listed on IDX, 2020-2022	Indonesia	Quantitative	Logistic regression analysis	Independent commissioner s; institutional ownership	ownership	Strong governance (these variables) reduces probability of financial distress during COVID-19
2	Jan et al(2023)	Management & Sustainability: An Arab Review	Country-level data	Islamic banks,panel data 2009-2020 (latest years include 2020	Pakistan	Quantitative	fixed-effect model and two-stage least squares (2SLS) techniques on balanced panel data spanning from 2009 to 2020	Board size; number of board meetings; women directors; managerial ownership	Board composition	Board size and meetings positively related to financial stability; managerial ownership had adverse effect; governance prevents bankruptcy in Islamic banks to some extend
3	Indiraswari et al (2025)	Problems and Perspectives in Management	330 non-financial firms	Non-financial firms on the Indonesia Stock Exchange, 2021-2022.	Indonesia	Quantitative	Moderated regression analysis	Institutional ownership; ineffective monitoring; regulatory compliance.	ownership	Corporate governance reduces fraud, but financial distress heightens fraud risk and weakens governance’s protective effect, making the governance–fraud relationship stronger when firms are distressed.
4	Perera and Munasinghe (2024)	International Journal of Accountancy	54 firms	Financial institutions, 2017-2022	Sri Lanka	Quantitative	Regression analysis	Board size, board gender diversification , frequency of board meetings, audit quality,	Board compositions and ownership	Many governance variables (e.g., size, gender diversity, audit quality, board independence, etc.) negatively associated with distress;



								board member remuneration, CEO duality, education level of the board members		governance helps predict distress
5	Meng et al (2024)	Pacific-Basin Finance Journal.	37	Chinese publicly traded firms	China	Quantitative	Random forest / ML: governance indicators improve distress prediction; ML outperforms linear models.	Board composition, ownership, audit variables	Board compositions and ownership	Strong governance indicators—like independent boards, separation of CEO and chair roles, concentrated ownership, and high audit quality—greatly enhance distress prediction and lower the likelihood of financial distress.
6	Lagasio et al (2023)	International Review of Financial Analysis	273 Italian listed companies for the period 2004–2017,	Italian listed companies, multi-year sample	Italy	Quantitative	Exponential, Weibull and Cox regression models were used to conduct a survival analysis	Board committees (audit, risk, nomination), committee independence	Board compositions and ownership	The findings highlight that the structure, independence, and activity level of board committees play a crucial role in mitigating financial distress risks beyond traditional financial indicators.
7	Urquiza and Ureba (2020)	Research in International Business and Finance	sample of 36 firms	listed on the IBEX 35 index over the period 2013–2016	Spain	Quantitative	conditional logistic regression and two-stage least squares (2SLS)	Code compliance indices, board & audit metrics	Board compositions and ownership	Our results reveal that only the fulfilment with the recommendations about the board of directors leads to a reduction in the likelihood of financial distress.



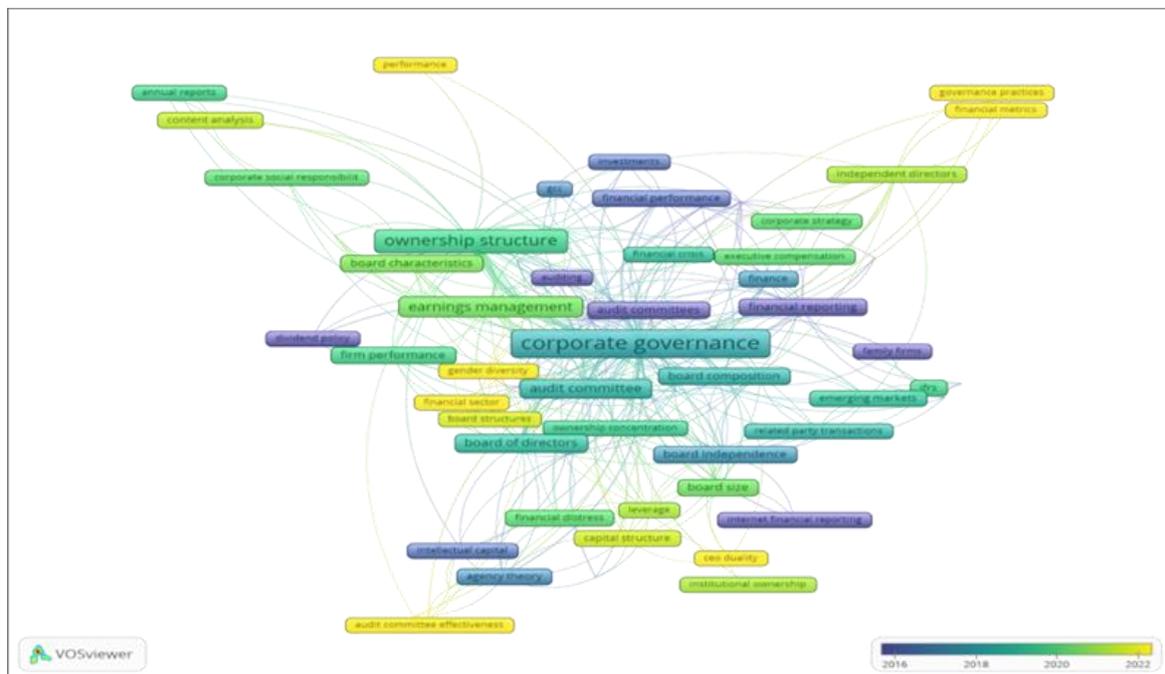
8	Li et al (2020)	Journal of Contemporary Accounting & Economics	1,779 firms	Chinese A-share listed firms covering 2007–2015.	China	Quantitative	Panel data multiple regression analysis with firm fixed effects	Audit measures / internal control	Financial distress linked with earnings management;	Strong internal control systems weaken the link between financial distress and earnings management, as high-quality controls limit both accrual and real earnings manipulation even during distress
9	Kuzey et al (2023)	International Review of Economics & Finance	Global (panel of 65 countries)	10,757 firm-year observations from 2002–2019	65 countries	Quantitative	Panel data regression analysis (OLS and two-step GMM estimation)	Corporate Transparency (TRANS) Based on opacity index (inverse of transparency), Corporate Opacity (OPACITY)	Distress influences transparency; disclosure moderates distress consequences.	Corporate transparency significantly reduces the likelihood of financial distress, particularly in firms with higher visibility. The study highlights that visible firms benefit more from transparent reporting practices as they improve investor confidence and reduce financing constraints.
10	Tron et al (2022)	Journal of Management & Governance,	Italian listed companies (EU sample).	147 firms	Italy	Quantitative	Logit model vs Random Forest machine learning model	Board composition, ownership, monitoring committees	Ownership	Random Forest provides far superior distress prediction than the Logit model, with a higher ROC score, and governance factors—especially CEO turnover and stable board composition—strongly enhance its ability to identify firms likely to enter distress or UTP status.



The network also demonstrates the potential intersections of various themes and geographical areas. Other groups examine ownership structures, board composition, and financial outcomes [e.g. Farooque et al., 2019; Yatim et al., 2006]. while others assess audit and disclosure practices. The growing emphasis on contextual applications of governance, particularly in emerging economies, is demonstrated by recent studies. These groups demonstrate how governance research is both adaptive and cumulative, addressing contemporary concerns like sustainability, regulation, and openness in a range of institutional contexts while also building upon significant earlier studies.

#### 4.1.2 Co-citation

The CG research has evolved over time. Figure 6 captures the co-citation analysis. The colours correspond to the average year of publication; earlier studies are displayed in blue, and more recent studies are displayed in yellow. Each node's size indicates how frequently a keyword appears in the literature, while the lines connecting each node show how closely those keywords are related.



**Figure 6: Co-citation**

In the earlier years, most studies focused on CG itself, particularly its connection with ownership structure, audit committees, board independence, board composition, and firm performance.

For example, Udin et al (2017) studied the relationship between CG and ownership structure, audit committees, board independence, board composition, and firm performance. The frequent appearance of terms such as earnings management, financial crisis, leverage and capital structure highlights the traditional emphasis on agency issues, monitoring mechanisms, and business outcomes can be noticed by latest researchers [see Table 3].

Theoretical bases such as agency theory and resource dependency theory (bottom cluster) appear more prominently in earlier studies, establishing the foundational lens for governance research.



## 5. DISCUSSION

A total of 131 studies was included for analysis, published between 2000 and 2025. The study addressed different CG variables, The study investigated a variety of industries (n=25), banking (n=18), manufacturing(n=11), insurance(n=28), financial and non-financial firms(n=31), and others. In geographical terms, most of the studies are undertaken in developed counties especially in Europe (n= 57), followed by North America (n=12), middle east(n=7), Africa(n=7) and Asia specific region(n=51). Most studies followed a quantitative research method(n=127), while a few studies were on qualitative studies(n=1) and only three studies with mixed design(n=3). Majority of studies used panel data and cross- sectional analysis.

### 5.1 *Practical implications*

Exploring the relationship between CG and business outcomes is interesting as well as challenging as the dynamics of the relationships change over period of time depending on the context and industry. CG plays a crucial role in determining a firm's long-term success and sustainability by ensuring that business decisions are made in alignment with the interests of all stakeholders. Effective governance measures can improve financial performance, lower agency costs, and boost shareholder value (Bui & Krajcsák, 2023). Understanding how weak governance contributes to financial distress enables firms and regulators to develop early-warning indicators. Boards can use governance metrics (e.g., board independence, audit quality, ownership concentration) as predictive tools to identify distress risks early.

### 5.2 *Limitations and suggestions for future research*

This review has several limitations. First, diversity of governance variables in the studies we included makes it difficult to draw inferences about the antecedents and consequences of CG. As CG varies depending on the industry, nature of company, size of the company, it is very difficult to establish causal relationships between CG structure and outcomes. Future research would benefit from clearly defining the determinants pertaining to industry, firms structure which allows researchers and other practitioners to draw conclusions. Second, this study further limited to database selection, publication bias and focused only on completed English articles published in Scopus database. Further focus on empirical studies may have led to exclusion of potentially relevant outcomes. Third, in our analysis, the mediator and moderators that were part of empirical studies are not included. This means we have focused on statistical method cross- sectional analysis and have drawn conclusions which is less suitable for establishing mediating mechanisms.

This SLR provides several avenues for future research. Our research involved 131 studies from developing nations, covering nearly two-decade period. While there is heterogeneity regarding the variety of tools adopted to measure determinants of CG. When attempting to compare the findings with relevant studies in the future, it is important to take into account this variability regarding the diversity of instruments employed to measure CG. We recommend future researchers to prioritize on developing models and confirming the accuracy of techniques designed to evaluate the governance factors (Villiers & Dimes, 2020).

CG research typically adopts an agency perspective on the company, adhering to (Jensen & Meckling, 1976). Even said, recent trends toward the reporting of additional non-financial data, such as the shift to integrated reporting, indicate that alternative theories, such stewardship theory and stakeholder theory, should merit more attention. Further the tools to measure CG reflects the major issues, which is the absence of the conceptualisation of governance (Adebayo, 2025). Further, while there seems to be many positive associations between CG and financial distress outcomes, further researchers can associate the dark sides of governance



effects on firms' performance (Dash & Dey, 2025). Major studies are focused on secondary datasets. Further researcher needs to emphasize more on secondary data collection through open ended questionnaires or survey which is considered has major gap in the field of governance variables and financial outcomes of firms.

### 5.3 Conclusion

To conclude, our study aimed at providing a systematic review and propose a future research agenda. A strong relationship exists between corporate financial distress and CG. At the core of the map, CG serves as the primary hub, strongly linked to ownership structure, board composition, audit committees, and firm performance. Distinct thematic clusters emerge. A strong argument is that it has a significant impact across a range of areas, including executive compensation, accounting scandals, business performance, strategy, disclosure, leadership, and earnings management, among others. When combined, these CG components serve as a foundation for business sustainability. It also urges policy changes, foremost to raise awareness among stakeholders, especially companies, shareholders, and the general public, thereby improving adherence to the successful CG code of conduct to eliminate significant potential corporate fraud. To bring all businesses into compliance with international standards, the review also recommends establishing country-specific guidelines. To protect the interests of all stakeholders and achieve high levels of accountability, efficiency, and openness, it attracts the attention of key stakeholders.

### Declarations

Authors do not have any conflict of interest.

Data will be made available upon request.

There are no human subjects in this research.

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