International Journal of Education, Modern Management, Applied Science & Social Science (IJEMMASSS)
An International Quarterly bi-lingual Multidisciplinary Double Blind Open Access Peer Reviewed Refereed Journal
ISSN: 2581-9925, Impact Factor (Cosmos: 7.555 & I2OR: 5.105), Volume 08, No. 03(I), July-September, 2026, pp. 115-122

Does Good Corporate Governance Improve Financial Performance: A Systematic Literature Review

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Citation: Panwar, R. & Agrawal, V. (2026). Does Good Corporate Governance Improve Financial Performance: A Systematic Literature Review. International Journal of Education, Modern Management, Applied Science & Social Science, 08(03(I)), 115–122.

ABSTRACT

This study investigates the impact of Corporate Governance on financial performance, identifying robust governance framework such as independent oversight, transparency and ethical leadership. The researcher used to systematic literature review approach analyze the study and conducted a qualitative systematic literature review of 96 research papers published between 2014 and 2026, incorporating both global and India-specific perspectives. The study reveals a significant impact of corporate governance on financial performance, driven by enhanced decision-making, reduced agency conflicts and increased stakeholder trust. This review also confirms that effective corporate governance practices are essential for balancing profitability with accountability, thereby fostering organizational stability and attractiveness to investors within the corporate sector.

***Keywords**: Corporate Governance, Financial Performance, Literature Review.*

Introduction

This literature review tries to bring together and summarize what previous studies say about how corporate governance influences financial performance in various industries and countries. It looks at board structure, who owns the company, how audits are done and how information is disclosed and examines how these factors are connected theoretical and empirical with profitability, leverage and firm-value. The application of corporate governance principals to shareholding companies in stock exchange markets will increase their ability to develop and grow, similar to international and large companies that it works in the neighboring environment. Strong Corporate Governance helps a company succeed and last a long time. It keeps the business moving in the right direction within the country. Strong governance insists that companies remain transparent and accountable when reporting their finances and setting their business strategy. A corporation's financial performance is a key driver of national economic development. Strong performance not only increase shareholder value but also provides a reliable metric for assessing a company's long-term sustainability.

This study shows that strong corporate governance makes businesses more stable and profitable. It suggests that the government should pass laws that promote honesty and responsibility and regulatory stability to encourages investor trust and attract investments. This study confirms that corporate governance like well-balanced board, a strong audit committee, clear ownership structure and transparent reporting help companies make better decisions, reduces conflicts between owners and managers and leads to stronger financial performance.

Corporate Governance

The term "Corporate Governance" emerged in the late 20th century, drawing intense focus from capital markets and other stakeholders due to its critical role in managing large companies with regional and international reach. Corporate Governance is a set of rules that help companies run their business honestly and responsibly. It focuses on being fair, transparent and answerable for actions, ensuring the company acts ethically and sustainably. Corporate governance is the practice of aligning a company's decisions to serve the diverse needs of everyone it impacts from the owners and leadership team to the customers, partners and the boarder community.

The Organization for Economic Cooperation and Development (OECD) defines corporate governance as a set of relationship between the company's management, the board of directors, owners and all related parties. It is the method by which the structure is set by which the company's goals are set, performance monitoring, results and direction are directed in the successful way of exercising and managing the authority, through which all incentives are offered.

- **Four Ps of Corporate Governance**

  These pillars help organizations:

- Upload ethical business conduct
- Enhance transparency and accountability
- Strengthen oversight by leadership
- Ensure corporate actions align with long-term strategic goals

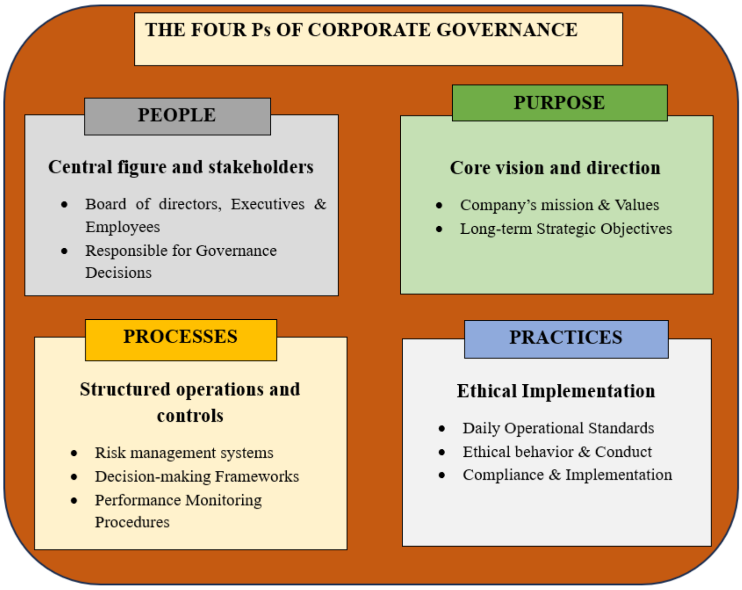


Figure No. 1: Four Ps of Corporate Governance

Source: Bajajfinserv.in

Figure No. 1 shows Good corporate governance is like a solid foundation that keeps a company healthy and honest. By following clear rules, a business earns the trust of its investors and builds a strong reputation in the market. This stability not only helps the company grow steadily but also acts as a safety net, preventing problems like corporate fraud, corruption and mismanagement.

Corporate Financial Performance

Financial performance measures how effectively a company or sector generates revenue, manages costs and create value for stakeholders using key ratios like ROA, ROE, profit margins and revenue growth. Profitability ratios measure how well a company turns its sales and investments into actual profit. They are the best way to see if the company's management is making smart moves in their daily operations and financial planning.

Corporate financial performance assesses how well a company generates profit, manages resources, and sustains growth using key financial metrics from statements like balance sheets and income reports. Monitoring financial performance helps assess the company's health, make informed decisions and plan for future growth. Good financial metrics enhance the company's ability to secure loans and favorable credit terms and analysis of financial metrics are essential for maintaining competitiveness and achieving long-term success.

Objective

Examine the relationship between Corporate Governance and financial performance in corporate sector.

Analyze the impact of Corporate Governance on Financial performance in corporate sector.

Research Method

This study uses a systematic literature review to gather and analyze existing research on how corporate governance affects financial performance in corporate sector. This method was chosen because it provides a reliable, step by step process for reviewing relevant literature.

Firstly, researcher searched in databases specifically **Research Gate, Google scholar, Scopus and web of science** and using the keywords **"Corporate Governance"** and **"Financial Performance"** and **"Corporate Sector"**. The relevant articles are selected they undergo a quality and bias check to ensure the information is reliable and fair. Researcher then pull out the most important data from each study and combine the findings to look for common patterns or trends.

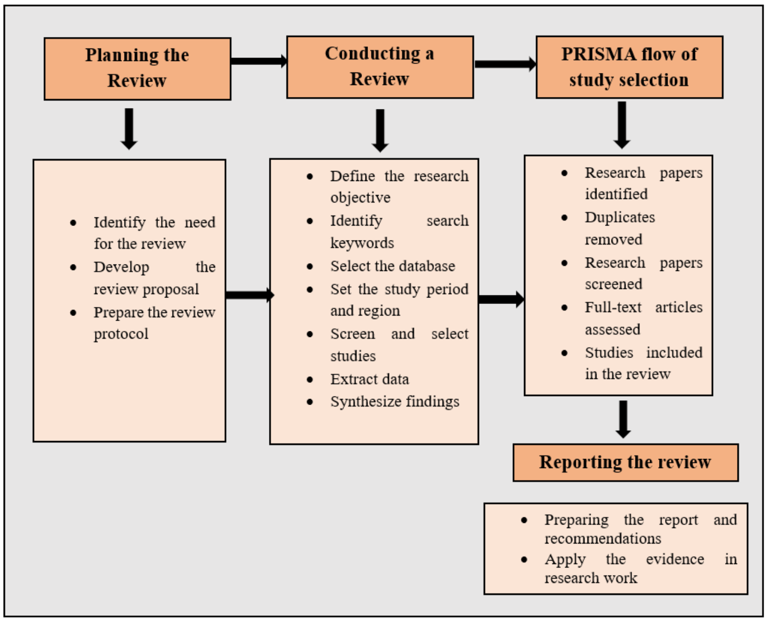
Researcher include a **PRISMA flow** and a PRISMA flow is especially useful to confine the shortlisted studies within the conceptual boundaries of the study, inclusion and exclusion criteria were implemented.

Screening abstract, full text reading, duplicate articles and non-peer-reviewed articles were removed. Thus, 96 papers qualified for final review.

- **Systematic Literature Review**

A systematic Literature is a highly structured research method that finds, evaluates and combines all the relevant academic papers on a specific topic using a strict, step-by-step plan. A systematic Literature Review is particularly valuable when you need to map out the evolution of a specific academic domain, identify conflicting evidence between existing studies, point out critical research gaps, or build a solid, evidence-based foundation for a new empirical study.

Systematic Literature Review



- **Most Cited Reviewed Research Papers**

Table 1: Reviewed Research Papers

Author Name/ Year/ Tittle	Citation	Country/ Geographical Area Covered	Findings/ Limitations
Joy Kweku Sakyi (2025) The relationship between Corporate Governance and Business Performance	**158**	USA	The findings reveal that effective corporate governance positively influences organizational performance, although the strength and nature of this relationship vary by industry and geographic context.
Affes, W., & Jarboui, A. (2023). The impact of corporate governance on financial performance: a cross-sector study	**188**	Uk	Researcher found a positive association between strong corporate governance on the financial performance of companies. Researcher only introduced in study only health sector.
Mhaka, C., & Mugona, B. (2020) Literature review of the effect of corporate governance on financial performance of commercial banks in a turbulent economic environment	**60**	Nigeria	This theoretical paper found that there is a significant connection between board size, proportion of non-executive directors, size audit committee and leverage, with financial performance of commercial banks measured by return on equity. It was also found out that political risk has more negative impact during on bank performance.
Caraiani, C., & Constantinescu, D. (2020). A structured literature review of corporate governance and performance research within an emerging country setting	**59**	Romania	The results illustrate multiple waves both in the interest of the researchers, as well as in the validation pf their research. Most of the studies engage a quantitative methodology, focusing on the national Companies policies of corporate governance. Furthermore, the authors concentrate within three main universities in the country.
Terjesen, S., & Umans, T. (2020). Corporate governance in entrepreneurial firms: a systematic review and research agenda	**184**	OECD (Organization for Economic Cooperation and Developments) countries	The conclusion high lights the quite fragmented nature of the field and the substantial knowledge gaps, and then proposes an actionable agenda for future research in terms of theories, research questions, research settings, and research designs.

- **Year wise distributes Research Papers**

The study selected 2019-2026 for research is that this specific timeframe acts like a bridge between the old way of doing business and new goals for future. By starting in 2019, get a clear picture of how companies operated before big changes happened, such as the introduction of new sustainability reports and rules for independent directors. They show exactly how corporate governance is changing right now to help the country reach its long-term developments goals.

The table tracks the number of research papers published or analyzed over a seven years period, from 2019 to 2026 and the most productive year in dataset was 2023-24 with 22 research paper.

Table 2: Year wise Division

Year	No. of Research Papers
2019-20	14
2020-21	13
2021-22	19
2022-23	12
2023-24	22
2024-25	11
2025-26	5
Total No. of Papers	**96**

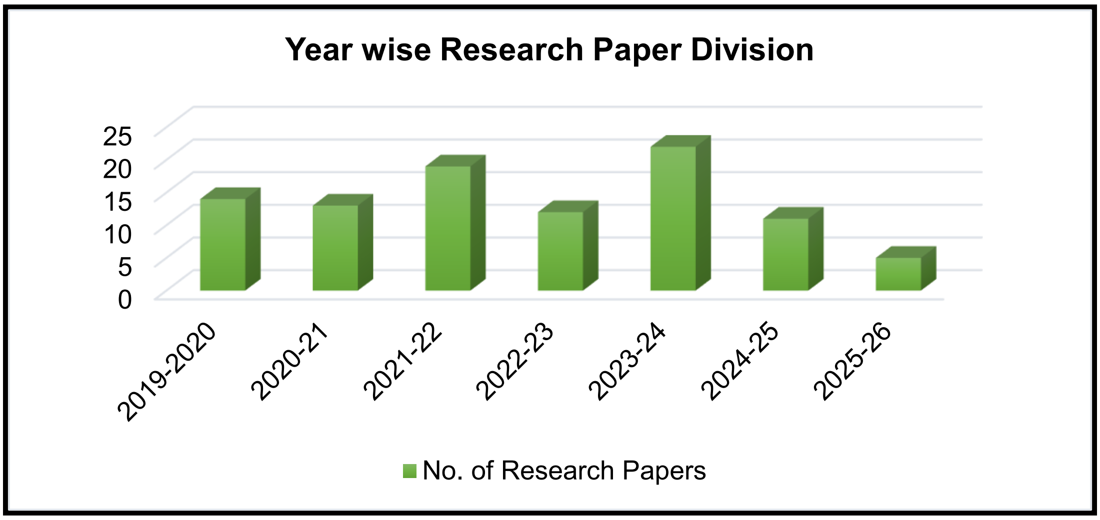


Figure 3: Year wise division

- **Geographical area vise distribution**

This table shows that research is globally focused but still keeps a local connection. Most of the papers analyzed 84 out of 96 are from international sources. This is great because it shows that world-class standards and global trends in corporate governance. The study findings are based on a very wide and diverse set of data from different countries. At the same time, researcher included 12 national papers. These papers are very important because they provide the specific Indian context. They show the local challenges and rules that are unique to Indian companies. By combining a large number of international papers with specific national ones.

Table 3: Geographical Area Covered in the Reviews

International	National
84	12

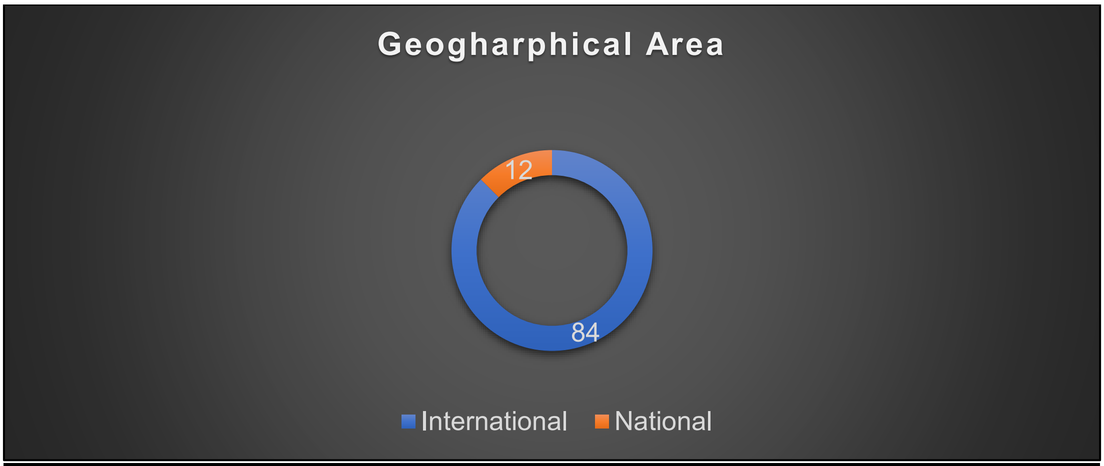


Figure 4: Geographical Area Covered in the Reviews

- **Country- Wise Diversification**

This table provides a detailed breakdown of the 96 research papers by country, showing a diverse and global reach. While researcher have papers from all over the world, a huge focus is on countries like Indonesia (21 papers), China (15 papers) and India (12 papers). The research gathers practical insights from countries that share similar economic growth patterns with India. this helps in understanding how corporate governance works in fast-developing markets. The research is well-balanced with perspectives from across the globe. It includes contributions from Nigeria, South-Africa, Malaysia, Thailand, Vietnam, Spain, UK, Italy, USA, Jordan, Australia, Europe, Germany and Others. This wide geographic variety ensures that the study findings are grounded in international best practices. By looking from both developing and developed nations, the research provides a solid, evidence-based roadmap for how corporate governance can drive financial success.

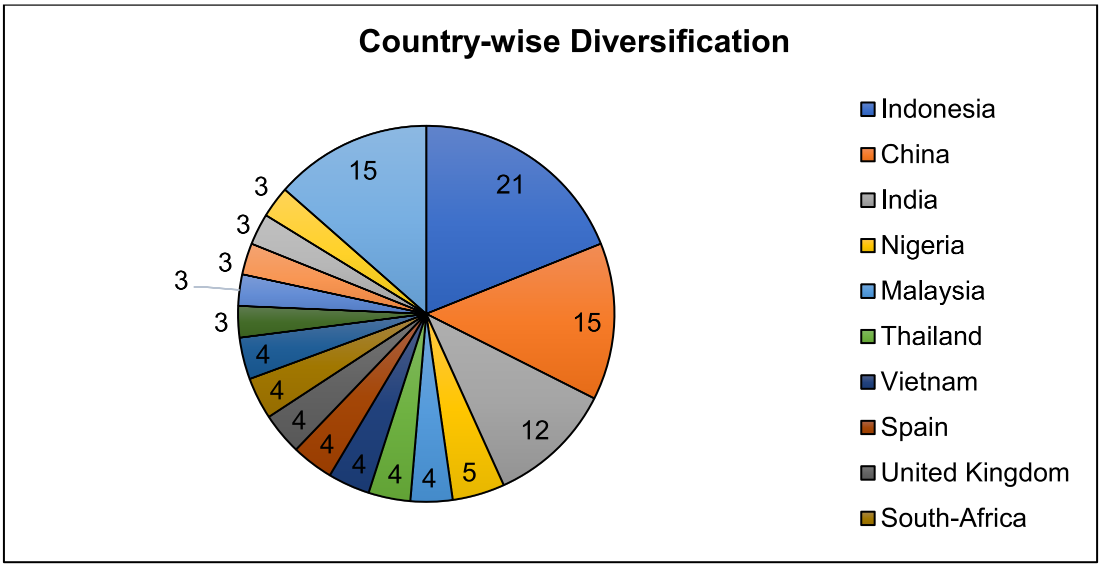


Figure 5: Country-wise Diversification

Research Framework

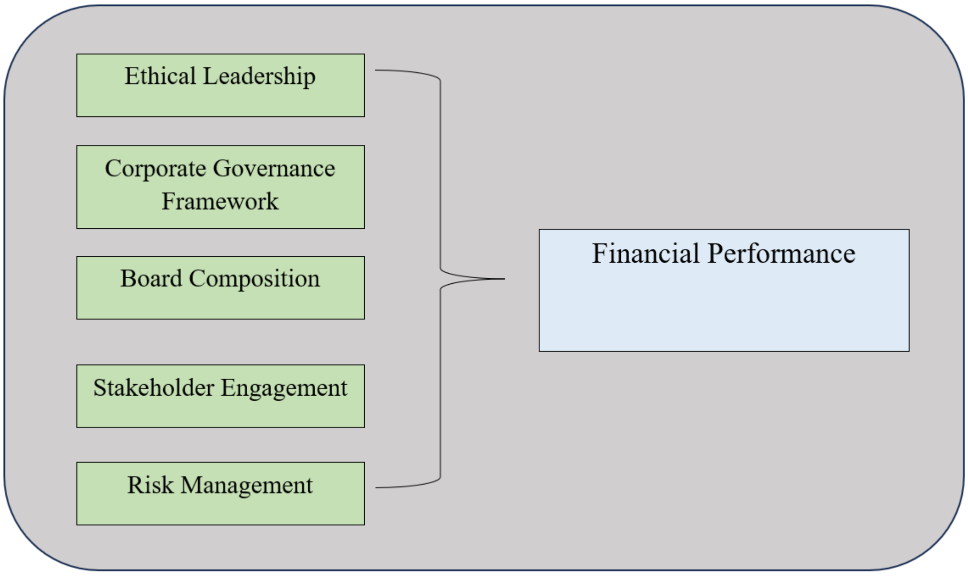


Figure 6: Research Framework

Sources of the Study

The study has been conducted by collecting data through secondary sources. Researchers have been referred from many research papers, various books, blogs, articles and other secondary sources considered for drafting the conceptual framework of the study.

Findings and Discussions

- **The relationship Between Corporate Governance and Financial Performance in corporate sector**

The relationship between corporate governance and financial performance is strong and generally positive. Effective corporate governance characterized by independent board, transparent disclosure, effective monitoring and suitable managerial incentives are plays a vital role in minimizing agency conflicts, improve decision-making and enhances accountability. These elements improved higher profitability, better cash flows and increased market valuation.

- **Ethical leadership and financial performance**

Ethical leadership helps a company's financial performance by building trust, which makes everything run smoother. When employees are treated fairly, they stay longer and work harder, saving the company high costs of hiring and training new staff. Because the company is known for being honest, customers trust the brand and keep coming back, while the business avoids expensive legal troubles and scandals. When leaders prioritize ethical practices, they promote transparent decision-making, which helps build strong relationships with stakeholders including customers, employees, investors and the community. This trust can translate into customer loyalty, improved brand reputation and employee morale all of which positively impact financial outcomes.

- **Corporate Governance framework and financial performance**

Corporate governance framework work by oversight and accountability to ensure effective governance. When a company has strong oversight such as an active board of directors, independent audits and clear reporting standards. Independent boards prevent self- serving actions, audit committees verify financial integrity and transparency rules promote trust among investors. Strong accountability signals to the market that a company is a reliable investment and significantly reducing the risk premium. The firm can secure financing at lower interest rates and more favorable terms, directly reducing its cost of capital and these combinations are increased stability leads to a higher market valuation. Inside a company, accountability acts like a regular check-up and this shows clearly in financial scores like Return on Equity or Return on Assets, which basically measure how good the company is at turning its resources into profit.

- **Board Composition and financial performance**

The board of directors serves as the primary link between shareholders and management. A higher percentage of independent directors is generally associated with better monitoring. Very small boards size may lack diverse expertise, while large boards size often suffered communication breakdowns and slow decision-making. Gender and professional diversity on boards are increasingly linked to better risk management and innovation often reflecting positively in a firm's market valuation.

- **Stakeholders Engagement and Financial Performance**

Stakeholder engagement is all about how a company builds and maintains relationships with everyone including employees, customers, suppliers and the local community. The relationship between stakeholder and financial performance works through risk reduction, brand loyalty and long-term value. These are reduced the likelihood of costly disputes and makes the company more attractive to investors. Ultimately, when a company treats its stakeholders well, it operates more efficiently, which is reflected in higher profitability and more sustainable long-term growth.

- **Risk Management and Financial Performance**

Risk management and financial performance are deeply interconnected. Risk management is not just about staying out of trouble, it about finding the right balance between playing it safe and taking smart chances to grow the business. By preparing for potential problems before they happen, a company can protect its profits and make sure it stays successful for a long-time.

Conclusion

All companies work hard to improve their performance and maximize their profitability and government help them too, to keep the economy strong and stable. The majority of these studies agree that the Corporate Governance significant influences financial performance but this effect varies depending on the sector and the state. These differences depend on how valid and effective the laws and regulations are in each place. Overall, a country's regulation shaped its entire economy. The corporate governance has become the attention of many investors and stakeholders, because of its great importance in managing large companies with a regional and international dimension, as the term governance is also closely related to in the successive crises in the world.

Researcher using this timeframe to show that modern, honest leadership is the key engine that will drive the economy. Our study concluded that all aspects of corporate governance help boost a company's financial performance. Additionally, uncertainty in economic policies weakens this positive effect significantly. Some researchers reveal the positive relationship between corporate governance and financial performance. The study shows significant impact of Corporate Governance on financial performance. While some studies portray the negative and no impact at all.

In this study, Researcher have been investigating the impact of corporate governance on financial performance. Researcher also examined the relationship between corporate governance and financial performance. The study also identified strong corporate governance is the backbone of trust and creditability, ensuring a company remains ethical, accountable and focused on long-term goals. It creates a solid framework for making strategic decisions that successfully balance the need for profit with the interests of shareholders, employees and the community. Based on existing research, researcher clarifying the role of corporate governance in enhancing firm performance. Finally, corporate governance plays a significant role by attracting the interest of potential investors, suppliers and other stakeholders thus the economy's growth.

Limitation and Scope for Future Research

Only selective and limited number of research papers has been reviewed in this paper. Further, researcher only analyzed the impact of corporate governance on financial performance and relationship between corporate governance and financial performance. The researcher analysis relies on secondary data and the review cover only 7 years (2019 to 2026). In a review of literature, findings are based only on what other researchers have already published.

Future research can explore other governance aspects how the effect firm performance. Future research can focus on specific countries or specific sectors to see how local laws, ownership patterns and industry conditions change the governance and financial performance link.

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