

# Theoretical and Empirical Relationships Among Corporate Governance, Accounting Conservatism, and Corporate Performance: A Systematic Literature Review and Future Research Agenda

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## Abstract

This systematic literature review (SLR) examines the theoretical and empirical relationships among corporate governance, accounting conservatism, and corporate performance. Applying PRISMA guidelines and strict inclusion and exclusion criteria, the study synthesized 113 empirical studies published between 2000 and 2025. The review uncovers enduring, unresolved gaps in the literature. Existing research often examines the direct influence of corporate governance on either accounting conservatism or corporate performance, but results are still inconclusive, and notably, no comprehensive study examines the moderating effect of corporate governance on the relationship between accounting conservatism and corporate performance. Ongoing regulatory reforms continue to reshape global governance structures to align with evolving best practices and local mandates, but few studies systematically investigate their impacts. Moreover, most research focuses on developed economies rather than emerging markets like India, where the Companies

Act 2013 and SEBI's amendments have driven significant changes. Addressing these critical gaps, future research should examine the moderating role of corporate governance on the relationship between accounting conservatism and corporate performance, thereby contributing to both theory and policy in emerging market governance research.

## Keywords

Corporate Governance, Accounting Conservatism, Corporate Performance, Systematic Literature Review

## Introduction

Corporate governance encompasses the rules, practices, and processes that guide corporate direction and control (Cadbury, 1992). Corporate governance has emerged as a critical factor influencing corporate sustainability, investor confidence, and economic growth (Mallin, 2018). Regulatory reforms continue to shape global

governance structures in response to evolving global best practices and local requirements.

Financial reporting forms the backbone of capital market operations, serving as a critical mechanism for disseminating relevant, reliable, and timely information to a broad spectrum of stakeholders. It supports investment decisions, corporate governance, and efficient resource allocation. Within this domain, *accounting conservatism* has emerged as a cornerstone principle that governs how uncertainty and risks are reflected in financial statements.

The core philosophy of conservatism can be traced back to Bliss (1924), who defined it as "anticipate no profit but anticipate all losses. "Conservatism has been widely defended for its role in enhancing the verifiability of financial reports, reducing agency costs, and mitigating earnings management (Watts, 2003; LaFond & Watts, 2008; Beaver & Ryan, 2005). It improves debt contracting and governance efficiency by creating more reliable benchmarks for performance evaluation (Ahmed & Duellman, 2007).

The scope of the present study is defined across multiple dimensions: geographical, sectoral, temporal, thematic, and methodological, to ensure clarity regarding the research boundaries. The study primarily investigates the following research questions:

RQ1: How does corporate governance influence accounting conservatism?

RQ2: What is the effect of corporate governance on corporate performance?

RQ3: Does accounting conservatism influence corporate performance?

RQ4: What theoretical lenses explain the interrelationships among corporate governance, accounting conservatism, and corporate performance?

The rest of the paper is organized as follows: Section 2 outlines the methodology. Section 3

presents the findings and discussion, structured around the research questions. Section 4 identifies research gaps and proposes directions for future studies.

## Methodology

To ensure the comprehensive identification of relevant literature, a systematic literature review (SLR) was conducted in alignment with the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) guidelines (Moher et al., 2021). The review focused on peer-reviewed empirical and theoretical studies related to corporate governance mechanisms, accounting conservatism, and corporate performance, with an emphasis on studies conducted in the Indian context and other emerging economies.

An extensive database search yielded a total of 886 records from academic repositories, including Scopus. In addition, 146 relevant studies were identified through other sources, including Google Scholar, ProQuest, and J-Gate. The search utilized Boolean logic with keywords such as: "corporate governance AND accounting conservatism", "corporate governance AND corporate performance", and "accounting conservatism AND corporate performance." These terms were combined using operators such as "AND" to maximize search precision and retrieve all potentially relevant literature.

The inclusion criteria were designed to retain only those studies that met rigorous academic standards and demonstrated conceptual and methodological relevance. Accordingly, studies were included if they were (i) peer-reviewed journal articles published in English; (ii) explicitly focused on one or more key constructs such as corporate governance, accounting conservatism, or corporate performance; (iii) published between 2000 and 2025, to reflect both historical and contemporary developments in the field; and (iv) based on

empirical research, reporting statistical associations, regressions, or other quantifiable outcomes.

Conversely, studies were excluded if they failed to meet these core standards. Specifically, studies were excluded if they (i) were not written in English or lacked peer-review status; (ii) addressed themes unrelated to the theoretical and empirical foundations of this research; (iii) did not provide statistical evidence, such as correlation or panel regression results; (iv) reused data already represented in other included studies, thereby creating duplication; or (v) contained measurement inconsistencies, limiting the interpretability or comparability of findings. By applying these criteria, the review ensured methodological transparency, minimized bias, and enhanced the rigor and replicability of the literature synthesis. .

The initial identification process yielded 1032 records. After removing 96 duplicate entries, a total of 936 studies remained for the screening phase. These studies underwent a title and abstract review to assess thematic relevance, and 409 records were excluded at this stage because they lacked an adequate focus on the core variables of interest. The remaining 527 articles underwent a full-text assessment. Upon closer evaluation, 414 articles were excluded for the following reasons: studies unrelated to the research constructs or theoretical framework, conceptual papers or empirical studies lacking statistical results, duplicate datasets, or studies with inconsistent measurement of variables. Finally, 34 studies were deemed eligible for inclusion in the systematic review. The overall selection process is visually depicted in Figure 1, the PRISMA flow diagram

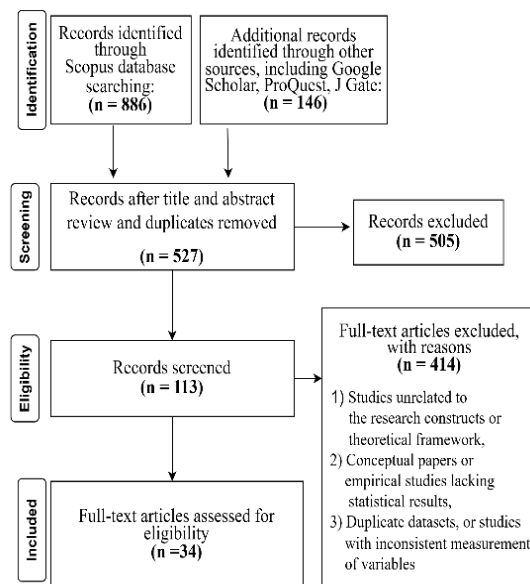


Figure 1 PRISMA flow diagram

## Findings and Discussion

### RQ1: How does corporate governance influence accounting conservatism?

The principle of accounting conservatism is based on prudence and has developed into a more intricate financial reporting framework due to empirical research and regulatory adjustments. Prior studies yielded varying results across diverse regions, including India (Sharma & Kaur (2021), Bangladesh and Pakistan (Saeed, 2020), Egypt (Nasr & Ntim, 2018), Netherland (Yuner et. al., 2017), UK (Elshandidy & Hassanein, 2014), China (Ren, 2014), Korea (Jeong & Kim, 2013), Malaysia (Yunos et al., 2012; Ho, 2009), Australia (Ahmed & Henry, 2012), the United State (Ahmed & Duellman, 2007), highlights the importance of corporate governance in advancing the quality of conservative accounting practices.

Sharma and Kaur (2021) emphasize the significant role of corporate governance in the Indian corporate setting, arguing that the characteristics of the audit committee and the board of directors have a substantial impact on accounting

conservatism policies. In Egypt, Nasr and Ntim (2018) found that accounting conservatism is positively linked to board independence. By contrast, board size and auditor type are negatively associated with accounting conservatism, whereas separating the roles of chairperson and CEO has no significant relationship with accounting conservatism. Elshandidy and Hassanein (2014) suggest that independent directors are more likely to pressure management to adopt conservative accounting practices in the UK. Jeong and Kim (2013) concluded that outside directors motivate directors to put more effort into reducing information asymmetry by implementing conservative accounting practices in Korea. In Australia, corporate governance mechanisms utilize accounting conservatism as a complementary agency control device, aligning with the observed negative relationship between the unconditional and conditional forms of accounting conservatism (Ahmed & Henry, 2012). Accounting conservatism also helps reduce agency costs for firms in the USA (Ho, 2009).

## **RQ2: What is the effect of corporate governance on corporate performance?**

Previous studies have yielded varying results across various regions and sectors regarding the relationship between corporate governance and corporate performance. Zheng (2021) examined agricultural firms in China, suggesting that larger board sizes positively affect performance. Similarly, Coleman and Wu (2020) examined firms in Nigeria and Ghana, finding that ownership structure and board characteristics have a positive impact on corporate performance. Ghazali (2020) concentrated on Malaysian firms, identifying the significant impacts of board meetings, role separation, and board size on performance, while independent directors had no significant influence.

In the UK, Shaukat and Trojanowski (2018) demonstrated a strong positive association between board governance and firm operating performance, highlighting the limitations of voluntary governance regimes. Cheng (2008) added that larger boards reduce variability in corporate performance, supporting the idea that broader decision-making reduces extreme outcomes. In Ghana, Puni and Anlesinya (2020) reported that board composition, size, and shareholder concentration positively impact financial performance, although audit committees often have adverse effects. In Turkey, Ciftci et al. (2019) found that family-owned firms perform better due to concentrated ownership but noted that increased board diversity also enhances performance. In India, Al-ahdal et al. (2020) observed that Indian firms outperformed their GCC counterparts in CG practices. However, elements like board accountability had insignificant impacts. Arora and Sharma (2016) found mixed evidence in India, where larger boards improve decision-making but show no direct link to profitability or ROE, while CEO duality remains inconsequential. Bhagat and Bolton (2008) emphasized the significance of board independence and the separation of the CEO and chair roles in enhancing operational performance.

## **RQ3: Does accounting conservatism influence corporate performance?**

Empirical findings regarding the influence of accounting conservatism on corporate performance are inconsistent, such as Malaysia (Fariz et al., 2020), Nigeria (Aminu & Hassan, 2017), Egypt (El-Habashy, 2019), Jordan (Hamdan et al., 2011), and China (Cui et al., 2021).

Some studies have reported a positive association between accounting conservatism and corporate performance (Aminu & Hassan, 2018; El-Habashy,

2019; Fariz et al., 2020), suggesting that conservative reporting practices, aligned with ethical business conduct, can enhance stakeholder trust and firm value. Conversely, earlier studies have indicated a neutral or negative effect of accounting conservatism on corporate performance (Hamdan et al., 2011; Cui et al., 2021), emphasizing its role in enhancing financial stability in emerging economies.

#### **RQ4: What theoretical lenses explain the interrelationships between corporate governance, accounting conservatism, and corporate performance?**

Corporate governance mechanisms and financial reporting practices rely on established theories, and a literature review confirmed that Agency Theory, Resource Dependence Theory, and Positive Accounting Theory can help clarify the relationships among corporate governance, accounting conservatism, and corporate performance.

This study is fundamentally based on agency theory, which highlights the conflict between managers and shareholders (Jensen & Meckling, 2019). Board diversity enhances the significance of monitoring by obtaining different perspectives, experiences, and expertise, thereby reducing agency costs and enabling conservative financial practices (Adams & Ferreira, 2009). Moreover, the ownership structure, primarily comprising institutional and foreign ownership, enhances external monitoring and aligns managerial incentives with shareholder interests, thereby increasing the demand for prudent accounting practices (La Porta et al., 2000; Alkordi et al., 2017). According to resource dependence theory, diverse boards improve decision-making by incorporating varied expertise and enhancing legitimacy, which in turn strengthens the demand for reliable financial reporting (Pfeffer & Salancik, 2015; Adams &

Ferreira, 2009). Positive Accounting Theory provides valuable insights into why firms choose specific accounting policies, such as conservatism, based on economic incentives and contractual arrangements (Watts & Zimmerman, 1978). It complements agency theory by emphasizing the economic motivations behind conservative accounting practices in contexts with strong governance mechanisms.

#### **Research gap and future direction**

Despite extensive research on corporate governance, accounting conservatism, and corporate performance, important gaps in the literature remain unaddressed.

First, existing research often examines the direct influence of corporate governance on either accounting conservatism or corporate performance, neglecting its moderating effect on the relationship between accounting conservatism and corporate performance.

Second, the regulatory framework has undergone considerable evolution in recent years, while these reforms aimed to improve transparency, board diversity, independence, and audit quality, their actual impact on the relationship between accounting conservatism and corporate performance has been investigated by few studies systematically and comprehensively.

Third, the effectiveness of corporate governance mechanisms is likely to vary across different ownership structures and industrial contexts; however, this aspect remains underexplored in the existing literature.

Finally, most prior research targets developed economies, leaving emerging markets like India, post-Companies Act 2013, and SEBI amendments underexplored. This limits the applicability of

existing insights to Indian firms, necessitating localized empirical evidence.

Addressing these critical gaps, the future study will aim to investigate the moderating role of corporate governance on the relationship between accounting conservatism and corporate performance, thereby contributing to both theory and policy in emerging market corporate governance research.

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