



Theoretical Foundations of Corporate Governance and Board of Directors: A Systematic Literature Review

Maqdisa Putri Rafie¹, Irananda Sihombing², Fahmi Natigor Nasution³, Iskandar Muda⁴
Faculty of Economics and Business, Universitas Sumatera Utara, Medan, Sumatera Utara^{1,2,3}

Corresponding Author's Email: maqdisarafie@gmail.com

Received: 11 29, 2025 | Accepted: 12 09, 2025 | Published: 12 11, 2025

ABSTRACT

This study conducts a Systematic Literature Review (SLR) of corporate governance and board of directors research published between 2020-2025. Using data from leading academic databases including Scopus, Web of Science, and ScienceDirect, this research analyzes 20 peer-reviewed journal articles to identify the dominant theoretical framework, its conceptual and empirical relationship with governance mechanisms, and the challenges and benefits of its application. The analysis reveals that Agency Theory is the most frequently used theoretical framework (appearing 10 times), followed by Stakeholder Theory (8 times) and Resource Dependence Theory (4 times). Agency Theory conceptually links board characteristics such as independence, audit committees, and oversight structures to objectives of reducing information asymmetry and aligning managerial interests with shareholders. Empirical evidence shows that board independence and well-structured audit committees correlate positively with financial reporting quality and firm performance, although effectiveness is influenced by ownership structures, state control, and institutional contexts. The application of Agency Theory provides significant benefits in strengthening oversight and accountability, but faces practical challenges related to genuine board independence, resource constraints, and institutional barriers particularly in emerging markets. This study concludes that while Agency Theory provides a strong conceptual foundation, its practical success depends heavily on institutional quality, board capability, and the broader governance ecosystem.

Keywords: *Corporate governance, board of directors, agency theory, systematic literature review, board independence.*

How to Cite:

Maqdisa Putri Rafie, Irananda Sihombing, Fahmi Natigor Nasution, & Iskandar Muda. (2025). Theoretical Foundations of Corporate Governance and Board of Directors: A Systematic Literature Review. *Indonesia Economic Journal*, 1(2), 1861-1870. <https://doi.org/10.63822/4e5vvs83>

INTRODUCTION

Corporate governance (CG) has emerged as a central pillar of organizational integrity, strategic direction, and sustainable value creation across a wide range of industries and institutional settings. Across the literature, CG is consistently conceptualized as a system of structures, processes, and mechanisms designed to ensure accountability, transparency, fairness, and ethical conduct in organizations. Classical theoretical foundations including agency theory, stakeholder theory, resource dependence theory, and stewardship theory provide the intellectual basis for understanding how governance structures influence managerial behavior, reduce information asymmetry, and protect shareholder and stakeholder interests. The role of the board of directors (BoD), in particular, is widely acknowledged as the core governance mechanism responsible for monitoring management, shaping strategic decisions, overseeing risk, and ensuring compliance with regulatory and ethical expectations.

Recent empirical and conceptual studies demonstrate substantial variations in board characteristics such as board size, independence, gender diversity, expertise, meeting frequency, and committee structure and show that these attributes significantly shape organizational outcomes including financial performance, corporate social responsibility (CSR), audit quality, earnings management, sustainability performance, and stakeholder trust. Evidence from multiple contexts (Lebanon, Spain, India, China, Europe, the U.S., and emerging economies) indicates that board composition and dynamics not only influence monitoring effectiveness but also interact with broader institutional factors such as ownership concentration, state control, regulatory reforms, ESG integration, and internal governance mechanisms (e.g., internal audit, audit committee). These findings collectively highlight a global shift within CG research: from structural compliance toward a deeper examination of board functioning, diversity, and strategic engagement within increasingly complex corporate environments.

The phenomenon of corporate governance has also evolved alongside major global disruptions such as technological advancement, climate change, and geopolitical uncertainty. Literature from 2020–2025 identifies emerging expectations for boards to adapt to AI-driven decision environments, ESG-driven accountability, and stronger stakeholder scrutiny. At the same time, governance mechanisms face persistent challenges: ensuring independent oversight in environments dominated by controlling shareholders, addressing the limited power and information constraints of independent directors, and balancing diverse expectations across shareholders, regulators, employees, and society at large. These trends underscore the need for a more integrated understanding of CG theory, board attributes, and organizational outcomes within both corporate and public-sector contexts.

Before presenting the hypotheses, it is important to establish a clear foundation for how this systematic literature review examines research trends, theoretical frameworks, and the role of corporate governance and the board of directors across the selected studies. The hypotheses formulated in question form serve to guide the analysis toward identifying the most dominant theory used in corporate governance research, understanding how this theory relates to board mechanisms, and exploring the benefits and challenges associated with its application in various organizational contexts

RQ1: Which theoretical framework appears most frequently across the reviewed studies in explaining corporate governance and the role of the board of directors?

RQ2: How does the most frequently used theoretical framework conceptually and empirically relate to corporate governance mechanisms and board of directors' characteristics?

RQ3: What challenges, benefits, and obstacles do firms and stakeholders experience when applying the

dominant theoretical framework within corporate governance and board practices?

METHODS OF RESEARCH

Research Design

This study employs a Systematic Literature Review (SLR) approach to synthesize and evaluate empirical and conceptual findings related to corporate governance, the board of directors, and the theoretical foundations used across contemporary research. The SLR design enables a transparent, replicable, and structured process for identifying research patterns, theoretical dominance, and emerging issues within governance studies. By using a systematic method, the review minimizes bias, ensures comprehensive coverage of the literature, and supports the development of accurate conclusions aligned with the research questions and hypotheses.

The design follows the general principles of SLR protocols, including planning, searching, screening, assessing eligibility, and synthesizing the selected studies. This approach allows the review to focus on theory usage, board characteristics, and governance outcomes across diverse organizational and geographical contexts. The analytical framework emphasizes categorization, thematic extraction, and comparison across studies, ensuring that the final synthesis accurately reflects trends, theoretical preferences, and contextual variations in corporate governance research.

Data Source & Research Strategy

The data for this review were collected from leading academic databases including Scopus, Web of Science, ScienceDirect, Emerald Insight, and Google Scholar, ensuring broad coverage of peer-reviewed journal articles published between 2015 and 2025. The search strategy utilized a combination of keywords and Boolean operators such as “*corporate governance*”, “*board of directors*”, “*governance theory*”, “*agency theory*”, “*board characteristics*”, and “*corporate governance mechanisms*”. The search process followed an iterative refinement approach in which titles, abstracts, and keywords were screened to ensure relevance to the research questions. Only articles aligned with theoretical discussion, board mechanisms, and CG structures were included in the final dataset.

Inclusion & Exclusion Criteria

To ensure the relevance and analytical rigor of the review, specific inclusion and exclusion criteria were applied during the screening process. Studies were included if they focused on corporate governance frameworks, theoretical foundations, or board characteristics within organizational contexts. Only peer-reviewed journal articles published within the specified timeframe and written in English were considered. Studies were excluded if they lacked theoretical relevance, were not peer-reviewed, focused solely on financial performance without discussing governance mechanisms, or were presented as books, theses, or conference proceedings. The detailed criteria used in this study are presented in Figure 1 below.

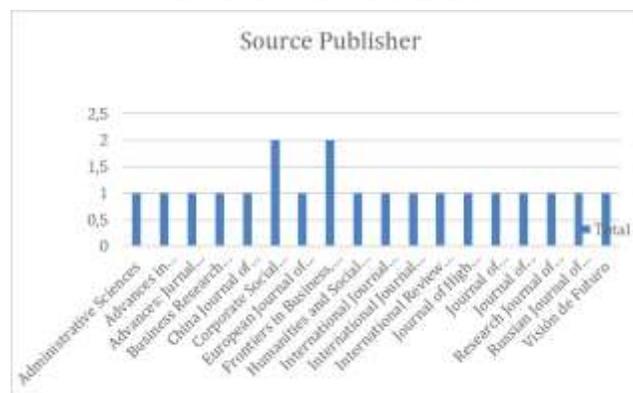
	Criteria
Inclusion	<ul style="list-style-type: none"> • Studies that examine corporate governance or board of director • Articles that incorporate or discuss using theory • Peer reviews journal articles • Published between 2020-2025 • Written in English • Full text articles accessible
Exclusion	<ul style="list-style-type: none"> • Studies unrelated to corporate governance of board of director • Articles without any theoretical discussion • Book, theses and non-peer reviewed materials • Published before 2020 • Written in languages other than English • Full text not available

The inclusion and exclusion criteria outlined in the table were established to ensure that only relevant, high-quality, and theoretically grounded studies were incorporated into this systematic literature review. The inclusion criteria focus on selecting peer-reviewed journal articles published between 2020 and 2025 that specifically examine corporate governance or the board of directors and explicitly use or discuss theoretical foundations. Only full-text English-language articles were considered to maintain accessibility and consistency in analysis.

Conversely, the exclusion criteria eliminate studies that do not align with the research scope, such as those unrelated to corporate governance or the board of directors, works lacking theoretical discussion, non-peer-reviewed sources (including books and theses), publications prior to 2020, articles written in languages other than English, and papers without available full text. These criteria help refine the dataset to ensure that the final literature pool is both rigorous and directly relevant to addressing the research questions.

After applying the inclusion and exclusion criteria, the selected journal articles that discuss corporate governance and the board of directors are summarized as follows

Table 1 Source Publisher



The table above presents the distribution of journal sources included in this systematic literature review, highlighting the variety of publication outlets that have contributed research related to corporate governance and the board of directors. Most journals appear only once, indicating a wide dispersion of relevant studies across different academic platforms. Notably, *Corporate Social Responsibility and Environmental Management* and *Frontiers in Business, Economics and Management* contribute the highest number of articles (two each), suggesting that these journals have recently shown greater engagement with topics related to governance structures and board practices. The remaining journals such as *Administrative Sciences*, *Business Research Quarterly*, *International Review of Financial Analysis*, and *Visión de Futuro* each provide one article, reflecting the multidisciplinary nature of governance research across economics, management, finance, and social sciences.

The bar chart accompanying the table visually reinforces this distribution, making it easier to compare the frequency of publications across different journals. Journals with a single article appear as uniform bars, while those contributing two articles stand out with higher bar lengths, emphasizing their relative prominence within the dataset. This visualization not only demonstrates the breadth of scholarly interest in corporate governance and board studies from 2020 to 2025 but also supports the conclusion that the field is characterized by contributions from a diverse and international range of academic sources.

RESULT AND DISCUSSION

RQ1: Which theoretical framework appears most frequently across the reviewed studies in explaining corporate governance and the role of the board of directors?

Based on the analysis of the 20 articles included in the review, the Agency Theory emerges as the most frequently used theoretical framework in explaining corporate governance and the role of the board of directors. A majority of the studies rely on Agency Theory to clarify how boards function as monitoring mechanisms aimed at reducing information asymmetry and aligning managerial actions with shareholder interests. While several papers also reference complementary theories such as Stakeholder Theory, Resource Dependence Theory, and Stewardship Theory these appear less consistently across the dataset. Overall, the dominance of Agency Theory indicates that contemporary governance research between 2020 and 2025 continues to prioritize managerial oversight, control mechanisms, and incentive alignment as central explanations for board behavior and governance effectiveness.

The theoretical framework most widely adopted across the reviewed studies can be observed in the following table, which highlights the frequency of theory usage in recent corporate governance and board of directors research.

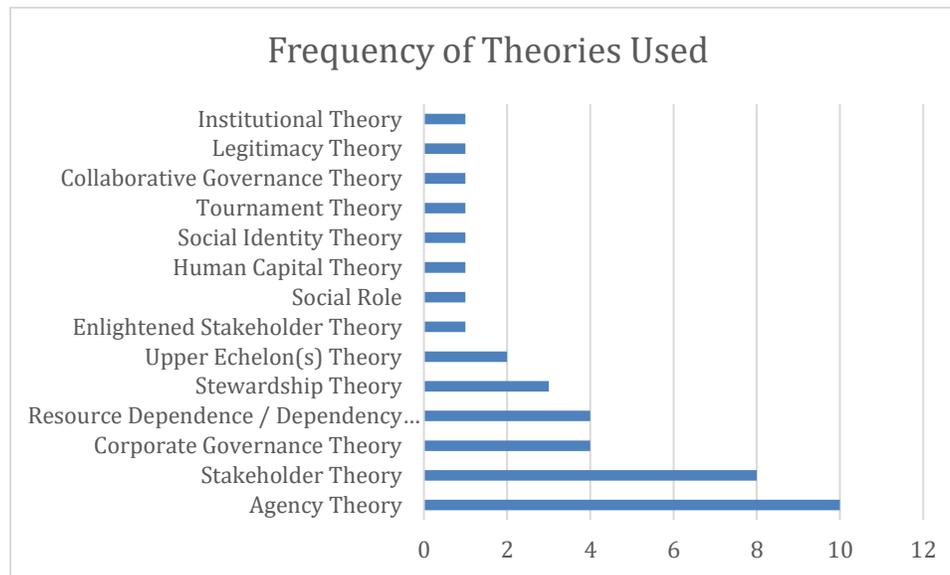


Figure 1 Frequency of Theories Used

The distribution of theoretical frameworks across the reviewed studies shows a strong dominance of Agency Theory, which appears ten times and is therefore the most widely applied perspective in explaining corporate governance (CG) and the role of the board of directors (BoD). This is followed by Stakeholder Theory, cited eight times, and other frameworks such as Corporate Governance Theory and Resource Dependence Theory, each appearing four times. The remaining theories including Stewardship Theory, Upper Echelons Theory, Human Capital Theory, Institutional Theory, and others occur far less frequently, typically only once or twice. This pattern illustrates that while governance research employs a diversified theoretical base, it remains heavily grounded in classic perspectives centered on managerial behavior, organizational control, and stakeholder relations.

The prominence of Agency Theory in CG and BoD research is expected, as it provides a foundational explanation of the core governance problem: the separation between ownership and control. Boards are conceptualized as monitoring mechanisms designed to reduce agency conflicts, ensure managerial accountability, and protect shareholder interests. Likewise, the frequent use of Stakeholder Theory reflects the evolution of governance discussions toward broader considerations of organizational responsibility, recognizing that boards must balance the interests of multiple parties beyond shareholders. Meanwhile, Resource Dependence Theory is widely used because it frames boards as providers of critical resources such as expertise, legitimacy, and external connections that enhance firm performance. Together, the dominance of these theories highlights their relevance in capturing the complexity of governance structures and the multifaceted functions performed by boards in modern organizations.

(RQ2): How does the most frequently used theoretical framework conceptually and empirically relate to corporate governance mechanisms and board of directors’ characteristics?

Agency Theory provides the primary conceptual lens used across the reviewed studies to explain why governance mechanisms and board characteristics matter: it frames boards as monitoring and control mechanisms that mitigate principal agent problems arising from separation of ownership and control

(Jensen & Meckling's logic as invoked in multiple reviews). Authors applying this lens emphasize that board independence, audit committees, and formal oversight structures exist to reduce information asymmetry and managerial opportunism, thereby aligning managerial decisions with shareholder interests (El Gammal et al., 2018; Lu & Zhu, 2020; Saona et al., 2020). Conceptually, Agency Theory thus links specific board attributes (independence, proportion of non-executive directors, committee structures) to the functional objectives of monitoring, incentive alignment, and disciplinary capacity positions echoed in both empirical studies and literature syntheses in your set (Yun Lu et al., 2022; Garzón Castrillón, 2021).

Empirical evidence across the dataset generally supports Agency Theory's predictions about board composition and governance outcomes, though with important conditionalities. Several empirical papers find that higher proportions of independent directors and well-structured audit committees correlate with improved financial reporting quality, lower earnings management, and better asset quality (Bezawada & Adaelli, 2020; Saona et al., 2020; Almasria, 2022). Similarly, studies of banks and commercial firms show positive associations between independence/board size and performance metrics such as ROA, while others note non-linear effects where very large boards may dilute monitoring effectiveness (Bezawada & Adaelli, 2020; Zubeltzu-Jaka et al., 2020). Country- and context-specific work (e.g., Chinese SOEs) highlights that Agency Theory explains why independent directors matter, but also demonstrates weaker monitoring effects when controlling shareholders or state influence limit board autonomy (Lu & Zhu, 2020).

Beyond board composition, the reviewed literature shows Agency Theory integrates with other governance mechanisms ownership structure, internal audit, and executive incentives to form a coherent explanatory system. Empirical studies in the set show that concentrated ownership or dominant controlling shareholders reshape agency problems (Type I and II agency conflicts) and thereby influence which board configurations are effective (Lu & Zhu, 2020; Saona et al., 2020). Likewise, research on audit processes and internal control finds that audit committees and internal auditors amplify board monitoring capacity and improve audit quality, consistent with Agency Theory's emphasis on complementary monitoring mechanisms (Almasria, 2022). Reviews and conceptual articles also stress that Agency Theory's monitoring logic explains cross-cutting governance outcomes such as reduced earnings management, enhanced transparency, and improved stakeholder trust when boards and oversight mechanisms function effectively (Aguilera & Castillo, 2025; Banda & Mwangi, 2023).

Finally, the literature cautions about the limits of an exclusively agency-centric interpretation and points to important moderating factors and theoretical complementarities. Several studies document mixed or context-dependent results for board independence, diversity, and size prompting complementary use of Stakeholder Theory, Resource Dependence Theory, Upper Echelons Theory, and stewardship perspectives to explain heterogeneous outcomes (Ardito et al., 2021; Yun Lu et al., 2022; Zhou et al., 2024). For example, gender and background diversity often improve board process and decision quality (Zhou et al., 2024; Yun Lu et al., 2022), yet their effects on financial performance can be inconclusive, indicating that monitoring (Agency) and resource/strategic provisioning (Resource Dependence) operate simultaneously. In sum, Agency Theory conceptually anchors much of the research on boards as monitors and is empirically corroborated across many studies in your sample, but robust explanations of governance outcomes frequently require integrating agency logic with complementary theoretical perspectives to account for context, ownership structure, and ESG or stakeholder considerations (Aguilera & Castillo, 2025; Ratna Sari, 2023).

RQ3: What challenges, benefits, and obstacles do firms and stakeholders experience when applying the dominant theoretical framework within corporate governance and board practices?

Applying the dominant theoretical framework primarily in Agency Theory offers substantial benefits for both firms and stakeholders by strengthening oversight and enhancing accountability within corporate governance. Across the reviewed studies, agency-driven mechanisms such as board independence, audit committees, and performance-based incentives consistently improve financial reporting quality, reduce managerial opportunism, and enhance transparency. These improvements not only protect shareholder interests but also build stakeholder confidence, as stronger monitoring structures help reduce information asymmetry and encourage more credible, value-oriented decision-making. As a result, firms adopting agency-aligned governance practices often demonstrate higher governance integrity, improved risk management, and more predictable long-term performance.

However, the very mechanisms that generate these benefits also create significant challenges in practical application, particularly within varying ownership structures and institutional environments. Many firms struggle to realize genuine board independence when concentrated ownership, government involvement, or family control limits the board's monitoring ability. Moreover, the strong emphasis on control and oversight may unintentionally restrict managerial agility, complicating strategic decision-making in fast-moving industries. Implementing rigorous monitoring structures also introduces financial and administrative burdens, especially for smaller firms that lack the resources to establish fully functional committees or adopt extensive disclosure processes. These challenges indicate that the theoretical benefits of Agency Theory often require careful adaptation to organizational and cultural contexts.

These challenges are further compounded by persistent obstacles that undermine the effectiveness of agency-based governance in practice. Structural limitations such as information asymmetry, insufficient board expertise, and restricted access to internal data can prevent boards from exercising the level of oversight that Agency Theory assumes. In addition, many firms particularly in emerging markets face regulatory inconsistencies, weak enforcement, and limited legal protection for minority stakeholders, all of which reduce the impact of governance reforms. Resource constraints and lack of institutional support further hinder the development of robust monitoring systems. Consequently, while Agency Theory provides a strong conceptual foundation for understanding governance dynamics, its practical success depends heavily on institutional quality, board capability, and the broader governance ecosystem in which firms operate.

CONCLUSION

Based on a systematic literature review of 20 corporate governance and board of directors research articles published between 2020-2025, this study yields several important conclusions. First, Agency Theory consistently dominates as the primary theoretical framework in explaining corporate governance and board of directors functions, appearing in half of the reviewed studies. This dominance reflects the continuing relevance of the ownership-control separation perspective in understanding modern governance dynamics. Second, Agency Theory demonstrates strong conceptual and empirical connections with corporate governance mechanisms. Conceptually, this theory explains why board characteristics such as independence, audit committee composition, and formal oversight structures are crucial for reducing agency conflicts and information asymmetry. Empirically, various studies show that independent boards

and well-functioning audit committees contribute to improved financial reporting quality, reduced earnings management, and enhanced organizational performance, although these effects may vary depending on institutional contexts and ownership structures. Third, the application of Agency Theory in corporate governance practice presents both significant benefits and challenges. Key benefits include enhanced oversight, better accountability, strengthened transparency, and higher stakeholder trust. However, practical challenges emerge in the form of difficulties achieving genuine board independence particularly in contexts of concentrated ownership or government control, organizational resource constraints in implementing comprehensive oversight structures, and institutional barriers such as weak regulatory enforcement in emerging markets. Fourth, the literature indicates that an exclusive approach to Agency Theory has limitations and often requires integration with complementary theoretical frameworks such as Stakeholder Theory, Resource Dependence Theory, and Stewardship Theory to provide more comprehensive explanations of heterogeneous governance outcomes. This suggests that corporate governance research is moving toward a multi-theoretical approach that acknowledges the complexity of board functions and broader organizational responsibilities. Finally, this research emphasizes that the successful application of Agency Theory principles in governance practice heavily depends on institutional quality, board capacity and expertise, and the broader governance ecosystem in which organizations operate. The practical implication of these findings is that governance reforms cannot rely solely on formal structural changes, but must be accompanied by institutional capacity strengthening, board expertise enhancement, and improvements in legal and regulatory systems that support effective governance practices.

REFERENCES

- Aguilera, R. V., & Castillo, M. R. (2025). Toward an updated corporate governance framework: Fundamentals, disruptions, and future research. *Business Research Quarterly*. <https://doi.org/10.1177/23409444251320399>
- Akinsola, O. K., & Taofeek, A. (2025). *The role of independent directors in strengthening corporate governance* [Working paper]. <https://www.researchgate.net/publication/388403475>
- Almasria, N. A. (2022). Corporate governance and the quality of audit process: An exploratory analysis considering internal audit, audit committee and board of directors. *European Journal of Business and Management Research*, 7(1). <https://doi.org/10.24018/ejbmr.2022.7.1.1210>
- Ardito, L., Dangelico, R. M., & Petruzzelli, A. M. (2021). The link between female representation in the boards of directors and corporate social responsibility: Evidence from B corps. *Corporate Social Responsibility and Environmental Management*, 28(4), 1266–1279. <https://doi.org/10.1002/csr.2082>
- Banda, M., & Mwange, A. (2023). Corporate governance: A conceptual analysis. *Research Journal of Finance and Accounting*, 14(17), 44–53. <https://doi.org/10.7176/RJFA/14-17-05>
- Bezawada, B., & Adaelli, S. R. (2020). Corporate governance, board characteristics and performance of Indian banks: An empirical study. *International Journal of Economics and Financial Issues*, 10(3), 244–250. <https://doi.org/10.32479/ijefi.9536>
- Chang, J. (2023). The role of independent directors in ensuring good corporate governance. *Frontiers in Business, Economics and Management*, 7(1). <https://doi.org/10.24018/ejbmr.2022.7.1.1210>
- Chien, N. B., & Thanh, N. N. (2022). The impact of good governance on the people's satisfaction with public administrative. *Administrative Sciences*, 12(1), 35. <https://doi.org/10.3390/admsci12010035>

- Elad, F. L., Wong, M. N., & Bongbee, N. S. (2018). The role of board characteristics in effective corporate governance: The case of Airbus Group. *International Journal of Social Sciences Perspectives*, 2(1), 87–95. <https://doi.org/10.33094/7.2017.2018.21.87.95>
- El Gammal, W., Yassine, N., Fakih, K., & El Kasser, A. N. (2018). The relationship between CSR and corporate governance moderated by performance and board of directors characteristic. *Journal of Management & Governance*, 23(2), 373–413. <https://doi.org/10.1007/s10997-018-9417-9>
- Garzón Castrillón, M. A. (2021). The concept of corporate governance. *Visión de Futuro*, 25(2), 132–152. <https://doi.org/10.36995/j.visiondefuturo.2021.25.02R.005.en>
- Jarboui, A., Mhiri, S., & Kouaib, A. (2020). Board of directors' effectiveness and sustainable performance: The triple bottom line. *Journal of High Technology Management Research*, 31(2), 100390. <https://doi.org/10.1016/j.hitech.2020.100390>
- Lu, Y., Ntim, C. G., Zhang, Q., & Li, P. (2022). Board of directors' attributes and corporate outcomes: A systematic literature review and future research agenda. *International Review of Financial Analysis*, 84, 102424. <https://doi.org/10.1016/j.irfa.2022.102424>
- Lu, Z., & Zhu, J. (2020). Tracing back to the source: Understanding the corporate governance of boards of directors in Chinese SOEs. *China Journal of Accounting Research*, 13(2), 129–146. <https://doi.org/10.1016/j.cjar.2020.04.001>
- Saona, P., Muro, L., & Alvarado, M. (2020). How do the ownership structure and board of directors' features impact earnings management? The Spanish case. *Journal of International Financial Management & Accounting*, 31(1), 98–133. <https://doi.org/10.1111/jifm.12114>
- Sari, R. (2023). Enhancing corporate governance through effective oversight and accountability. *Advances: Jurnal Ekonomi & Bisnis*, 1(6), 467–478. <https://doi.org/10.60079/ajeb.v1i6.291>
- Tariq, T. Y. A., Iman, A.-F., Essia, R. A., & Abdulkarim, K.-J. (2021). Empirical study of the influence of board of directors' feature on firm performance. *Russian Journal of Agricultural and Socio-Economic Sciences*, 11(119), 142–151. <https://doi.org/10.18551/rjoas.2021-11.16>
- Uddin, M. Z., Yuanyuan, X., Khan, N. U., & Han, H. (2023). Linking local collaborative governance and public service delivery. *Humanities and Social Sciences Communications*, 10(1), 887. <https://doi.org/10.1057/s41599-023-02421-3>
- Zhou, H., Chen, A., Liao, S., & Wang, W. (2024). Board of directors and corporate governance. *Proceedings of the 4th International Conference on Financial Technology and Business Analysis*, 67–73. <https://doi.org/10.54254/2754-1169/2024.26703>
- Zubeltzu-Jaka, E., Álvarez-Etxeberria, I., & Ortas, E. (2020). The effect of the size of the board of directors on corporate social performance: A meta-analytic approach. *Corporate Social Responsibility and Environmental Management*, 27(4), 1819–1833. <https://doi.org/10.1002/csr.1889>