

The Implementation of Good Corporate Governance (GCG) in Mitigating Earnings Management Practices: A Systematic Literature Review

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Abstract

This study aims to conduct a systematic review of global literature regarding the role of Good Corporate Governance (GCG) mechanisms in mitigating earnings management practices. The study use the Systematic Literature Review (SLR) method and PRISMA protocol, this research analyzes 25 reputable international journal articles published between 2020 and 2026. The analysis maps findings based on theoretical frameworks, GCG components, and oversight effectiveness. The results indicate that Agency Theory remains the dominant foundation in explaining the relationship between governance and earnings quality. The Audit Committee is identified as the most crucial GCG instrument, where independence and financial expertise of members are the primary determinants in detecting accrual discretion. However, this study also identifies the phenomenon of symbolic compliance, where governance fails to suppress earnings management if implementation is merely an administrative formality. Implications: This study emphasizes the importance of strengthening the substance of competence within internal corporate structures rather than merely fulfilling quantitative membership requirements.

Keywords: Good Corporate Governance, Earnings Management, Audit Committee, Agency Theory, Systematic Literature Review.

1. Introduction

Good Corporate Governance (GCG) has evolved from a regulatory requirement into a fundamental pillar for the sustainability of modern corporations. It is defined as a system that directs and controls organizations to balance stakeholders' interests. Core principles—transparency, accountability, responsibility, independence, and fairness—play a critical role in enhancing investor confidence and ensuring sustainable business practices, thereby mitigating systemic risks in increasingly complex environments (Sharma et al., 2025).

Despite strengthened governance frameworks, earnings management remains a significant challenge to financial reporting quality. Earnings management refers to managerial actions that manipulate financial statements, either through accrual-based or real activities management, to achieve specific performance targets (Cheung & Adelopo, 2022). Such practices distort financial information and threaten market integrity, ultimately undermining public trust.

From an Agency Theory perspective, GCG serves as a control mechanism to reduce information asymmetry between managers and shareholders. Effective governance mechanisms—such as board independence and competent audit committees—are designed to limit opportunistic managerial behavior (Alkebee et al., 2022). While prior studies highlight the effectiveness of governance in constraining earnings manipulation (Putri & Prasetyo, 2020), inconsistent findings suggest that some mechanisms are merely symbolic and fail to significantly reduce earnings management (Paul et al., 2023).

The effectiveness of GCG is also influenced by contextual factors, including institutional environments, regulations, and national culture. For instance, governance mechanisms may function differently in developed versus emerging markets, while cultural dimensions such as uncertainty avoidance and power distance shape governance enforcement (Jarne-Jarne et al., 2022). Ownership structures further contribute to variations in earnings management practices (Nikulin et al., 2022).

Despite extensive research, gaps remain in understanding how GCG responds to increasingly sophisticated earnings management techniques, particularly in emerging markets and specific industries (Handoyo & Kusumaningrum, 2022). There is a growing need to incorporate contemporary variables such as gender diversity and technological advancements in governance.

In conclusion, the integration of GCG and earnings quality is essential for corporate transparency. This Systematic Literature Review (SLR) aims to provide a comprehensive synthesis of how GCG mitigates earnings management, offering insights for regulators, investors, and academics in strengthening governance frameworks for the future.)

2. Research Methodology

This study employs a Systematic Literature Review (SLR) following the PRISMA 2020 protocol to ensure transparency, rigor, and replicability in the data collection and analysis process. The selection procedure was conducted through predefined inclusion and exclusion criteria, as summarized below.

Inclusion and Exclusion Criteria

The inclusion criteria consisted of: (1) articles published between 2020 and 2026; (2) peer-reviewed journal articles indexed in Scopus; (3) articles written in English; (4) studies examining the direct relationship between Good Corporate Governance (GCG)—such as board structure and audit committees—and earnings management; (5) empirical (quantitative or qualitative) studies or systematic literature reviews; and (6) articles available in full-text format.

Conversely, the exclusion criteria included: (1) articles published before 2020; (2) non-journal sources such as books, theses, dissertations, conference proceedings, or opinion articles; (3) non-English publications; (4) studies discussing GCG or earnings management separately without linking the two variables; (5) editorials or short commentaries lacking rigorous analysis; and (6) articles without full-text access.

Based on these criteria, the screening process was conducted in multiple stages. Initial search results from Scopus were filtered to remove duplicates and irrelevant studies. Subsequently, full-text assessments were performed to evaluate methodological rigor and topical relevance. As a result, a total of 25 international peer-reviewed journal articles were selected, representing recent developments in the relationship between corporate governance mechanisms and earnings management practices during the period 2020–2026.

Geographical Distribution of Studies

The selected literature demonstrates a broad global coverage. A significant proportion of studies originate from the Middle East and Africa (e.g., Jordan, Saudi Arabia, Egypt, Kenya, and Morocco), followed by Asia (Indonesia, China, Malaysia, Pakistan, and Thailand), Europe (Greece, Germany, Spain, and Russia), and cross-country or global studies. This distribution indicates that research on corporate governance and earnings management has gained global attention, with varying institutional and cultural contexts influencing the findings.

Journal Quality Distribution

The quality of the selected literature is reflected in its journal indexing. Of the 25 articles, 36% are published in Scopus Q1 journals, 44% in Q2, 16% in Q3, and 4% in Q4. Notably, 80% of the studies are derived from Q1 and Q2 journals, indicating a strong foundation of high-quality, rigorously reviewed academic sources. This distribution enhances the credibility and validity of the findings synthesized in this SLR.).

3. Results and Discussion

Table 1. Distribution of Theoretical Frameworks

No	Grand Theory	Number of Articles	Percentage (%)
1	Agency Theory	18	72%
2	Institutional Theory	3	12%
3	Signaling Theory	2	8%
4	Stakeholder Theory / Stewardship Theory	2	8%
	Total	25	100%

The table indicates that the literature on earnings management and corporate governance is predominantly dominated by the use of Agency Theory as the primary analytical framework. This dominance reflects that the core issue faced by firms across countries remains rooted in conflicts of interest between shareholders and managers. In this context, corporate governance mechanisms are perceived as crucial instruments to align the interests of both parties and to constrain opportunistic managerial behavior, particularly in the manipulation of financial information for personal gain.

Beyond agency theory, the literature also incorporates other theoretical perspectives such as Institutional Theory, Signaling Theory, and Stakeholder Theory. The inclusion of these perspectives provides a broader analytical dimension, suggesting that earnings management practices are not solely driven by internal organizational factors but are also influenced by external pressures, including institutional environments, industry norms, and the need to convey positive signals to the market.

Overall, the diversity of theoretical perspectives in the reviewed literature enhances the understanding that the effectiveness of corporate governance is shaped by a complex interaction between internal monitoring mechanisms and external environmental demands.

The Implementation of Good Corporate Governance (GCG) in Mitigating Earnings Management

The synthesis of 25 international studies confirms that earnings management arises from agency conflicts, where Agency Theory explains how information asymmetry enables managers to manipulate financial reporting. In this context, corporate governance serves as a key mechanism to align managerial and shareholder interests and reduce opportunistic behavior.

The findings highlight the audit committee as the most critical governance mechanism. Its effectiveness depends not merely on its existence, but on its independence and financial expertise, which enable early detection of reporting irregularities. In addition, independent boards and institutional ownership strengthen oversight through internal checks and external monitoring.

However, GCG is not always effective. Some studies reveal that symbolic compliance—where governance structures exist only to meet regulatory requirements—limits its ability to mitigate earnings management. This indicates that governance effectiveness depends on the real integrity and independence of its actors.

In conclusion, strengthening the substantive quality of GCG, particularly audit committee competence and independence, remains essential to ensuring financial reporting credibility and reducing earnings manipulation.

4. Conclusion

Based on the systematic analysis of 25 international journal articles, this study concludes that Good Corporate Governance (GCG) mechanisms play a fundamental role in mitigating earnings management by reducing information asymmetry, consistent with Agency Theory. The findings highlight that the quality of the audit committee—supported by independent boards and institutional monitoring—is the key determinant in ensuring financial reporting integrity. However, governance effectiveness depends more on substantive implementation than formal compliance, requiring strong independence and financial expertise.

From a practical perspective, regulators are encouraged to strengthen audit committee qualification standards by prioritizing financial expertise over mere structural requirements. Companies should shift from a compliance-based approach to a culture-driven governance model to avoid symbolic compliance. Future research is recommended to incorporate external factors such as audit quality and organizational culture across different jurisdictions to better understand governance dynamics in addressing increasingly complex earnings management practices.

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