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Analysis of the Role of Corporate Governance in the Design of Financing Projects and Executive Compensation

Nur Amalianty [1*] Muhammad Afdal [2] Andi Murtafiah [3]

[1] Politeknik Maritim AMI Makassar, Indonesia. Email: amelianty26@gmail.com
[2] Politeknik Maritim AMI Makassar, Indonesia. Email: afdhalmafdhal45@gmail.com
[3] Politeknik Maritim AMI Makassar, Indonesia. Email: andimurtafiah49@gmail.com

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ABSTRACT

Purpose: This study explores the role of corporate governance in shaping financing project decisions and executive compensation policies by examining the interconnections among governance mechanisms, financial decision-making, and incentive structures. The research also highlights the significance of transparency, accountability, and sustainability as drivers of organizational resilience and stakeholder trust.

Research Method: A systematic literature review (SLR) approach was employed to synthesize findings from recent studies on governance frameworks, financing strategies, and executive compensation. Relevant academic articles from leading journals were selected using specific inclusion criteria, with emphasis on empirical evidence and conceptual advances published after 2018. The review process involved thematic analysis to identify patterns and draw insights across governance configurations in various sectors and regions.

Results and Discussion: The findings reveal that independent board structures and risk committees enhance financial decision-making by promoting accountability and risk mitigation. Incorporating ESG (Environmental, Social, and Governance) indicators into executive compensation strengthens stakeholder confidence and fosters long-term sustainability. However, governance effectiveness varies depending on board composition, regulatory environments, and market dynamics. The discussion emphasizes the need for an integrated approach that balances financial performance, risk management, and sustainability objectives.

Implications: The study offers practical recommendations to strengthen governance practices, including enhancing the roles of audit and risk committees, improving transparency in financial reporting, and integrating ESG metrics into executive compensation policies. The findings underscore the importance of adaptive governance models that respond to regulatory changes and market demands. Future research should consider comparative and longitudinal analyses to further validate governance frameworks across diverse organizational contexts.

Keywords: corporate governance; executive compensation; financing decisions; esg indicators; accountability.

Introduction

Corporate governance is a foundational pillar in ensuring effective corporate management, evolving from its initial role of enforcing accountability and regulatory compliance to a strategic function that shapes key corporate decisions. As its scope has expanded, governance has come to influence critical areas, such as project financing and executive compensation policies, which play pivotal roles in maintaining organizational stability and growth (Sarhan & Al-Najjar, 2023). Effective governance frameworks enhance transparency and accountability while fostering mechanisms that align managerial decisions with long-term corporate objectives (Bui & Krajcsák, 2024). This alignment is especially critical in financial decision-making, where factors such as capital allocation, risk management, and cost optimization must be balanced to ensure sustainability and competitiveness. Executive compensation, a complementary governance component, is a strategic tool for driving performance, retaining top talent, and fostering responsible leadership. However, when compensation schemes poorly align with corporate objectives or excessively reward short-term gains, they risk undermining stakeholder trust and potentially causing reputational damage (Elhabib, 2024). In such cases, governance failures can lead to ineffective capital management, increased operational risks, and weakened investor confidence. These issues highlight the complex, interconnected nature of governance mechanisms, where financial decision-making and executive compensation intersect to affect overall corporate health. The persistent challenge lies in designing governance frameworks that effectively mitigate risks, enhance accountability, and foster executive decision-making that supports long-term corporate success while balancing performance incentives and sustainable practices.

The increasing complexity of the global business environment has intensified the need for governance practices that balance financial performance with ethical and sustainable management. Rapid technological advancements, market volatility, and evolving regulatory frameworks have compounded organizations' challenges in structuring governance systems that adequately respond to stakeholder demands (Xi, 2024). As regulatory bodies and investors demand greater transparency and accountability, organizations are compelled to adopt governance mechanisms that ensure compliance and strengthen stakeholder engagement and trust (Reid et al., 2024). Despite these pressures, many companies struggle to embed governance principles that effectively inform financial decision-making and executive compensation frameworks. Controversies surrounding disproportionate executive bonuses and high payouts, even during periods of subpar financial performance, have brought corporate governance practices under increased scrutiny (Carrothers, 2019). Such incidents expose governance failures that erode stakeholder confidence, highlighting the inability of some organizations to design compensation structures that reflect fair and accountable practices. These practical shortcomings underscore the dual role of governance frameworks as both enablers and inhibitors of organizational resilience and adaptability. Consequently, corporate governance is no longer perceived solely as a compliance mechanism but as an essential strategic lever that influences key aspects of organizational performance. Understanding how governance shapes financial strategies and executive compensation policies thus remains a crucial focus in corporate research and practice, demanding further investigation into the nuances of governance design and its broader implications.

Recent studies underscore the significant influence of corporate governance on financial decision-making and sustainability performance. Mensah et al. (2024) and Torres (2024) highlight that board characteristics, such as size, gender diversity, and compensation, positively affect financing choices and ESG performance. Zhu et al. (2024) emphasize that executive compensation incentives can improve ESG ratings by promoting green innovation, enhancing environmental disclosures, and yielding stronger financial results. However, they caution that excessive compensation may reduce ESG performance. Torres (2024) further argues that the configuration of governance mechanisms is more important than individual elements, advocating for an integrated governance approach. Context-specific findings further enrich the discourse. Dongol & Shrestha (2024) show that regular board evaluations enhance financial performance, whereas large boards can hinder efficiency. Dewi (2023) demonstrates that robust governance in financial and compensation decisions improves transparency, accountability, and risk management, resulting in better project outcomes and lower financing costs. Affes & Jarboui (2023) confirm that strong governance positively influences financial performance across industries, as reflected by higher returns on equity. An emerging trend is the integration of ESG metrics into executive compensation packages. Cohen et al. (2023) find that aligning incentives with ESG goals enhances stakeholder trust and organizational resilience. Collectively, these studies highlight the pivotal role of governance in aligning executive compensation with long-term sustainability while underscoring the complexity of governance mechanisms and their impact on financial decision-making (Dewi, 2023; Affes & Jarboui, 2023).

Despite the expanding body of research on corporate governance, significant gaps remain in understanding the complex interplay among governance structures, project financing design, and executive compensation. Much of the existing literature addresses governance elements—such as board composition, oversight, and executive incentives—in isolation rather than as interconnected components of a comprehensive governance framework. For example, while studies by Mensah et al. (2024) and Torres (2024) provide valuable insights into the relationship between board characteristics and ESG performance, they do not examine how governance mechanisms simultaneously influence financial decision-making and compensation strategies. Similarly, research by Zhu et al. (2024) and Cohen et al. (2023) underscores the importance of executive incentives in driving sustainability initiatives. However, it offers a limited analysis of how these incentives can be structured within varying governance contexts to balance corporate performance and risk management. Contextual factors such as cultural norms, regulatory environments, and industry-specific dynamics further complicate governance practices yet remain underexplored. Findings from Dongol & Shrestha (2024) highlight that governance practices effective in one setting, such as board evaluations in Nepalese banks, may yield different outcomes in other regions due to contextual disparities. These discrepancies point to the need for holistic studies that incorporate cross-contextual comparisons and treat governance as an integrated system rather than a set of isolated components. Addressing these gaps would provide a more nuanced understanding of how governance influences financial strategies and executive compensation across diverse organizational and regulatory environments.

This study aims to bridge the identified research gaps by employing a systematic literature review (SLR) to analyze the role of corporate governance in the design of financing projects and executive compensation. By synthesizing findings from various governance configurations and organizational contexts, this research seeks to provide a holistic understanding of how governance frameworks shape financial decision-making and executive incentive structures. Unlike prior studies that often examine governance elements in isolation, this study adopts an integrated approach, viewing governance as both a compliance tool and a strategic enabler that aligns organizational objectives with sustainable growth and stakeholder trust. The study's novelty lies in its emphasis on the interconnectedness of governance mechanisms, particularly how financial strategies and executive compensation schemes reinforce or undermine one another, depending on the governance structure. The research is guided by three key questions to address these complexities: How does corporate governance influence decision-making in project financing? What are the primary factors in executive

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compensation policies shaped by governance practices? How does transparency within governance frameworks impact stakeholder confidence and organizational performance? By answering these questions, the study aims to advance the current academic discourse and provide practical insights for policy formulation, highlighting governance as a critical determinant of financial resilience and long-term corporate sustainability. Ultimately, the research contributes to a more nuanced understanding of governance as a dynamic system that balances performance incentives, accountability, and strategic foresight.

Literature Review and Hypothesis Development

Agency Theory in Corporate Governance

Agency theory explains the contractual relationship between principals (owners or shareholders) and agents (management or executives) within organizational governance. This relationship is built on the expectation that agents will act in the best interest of the principals when managing the organization's resources (Eisenhardt, 1989). However, research has consistently shown that differences in objectives and preferences often lead to agency problems, in which management may prioritize personal gain over organizational goals (Trinh, 2022). Such conflicts can manifest as excessive compensation packages or short-term performance incentives encouraging high-risk projects. These incentives, while intended to enhance managerial commitment, can increase the likelihood of opportunistic behavior that jeopardizes long-term shareholder interests (Nienhaus, 2022). In addressing these conflicts, agency theory introduces the concept of agency costs, which include monitoring costs incurred by shareholders to oversee managerial activities, bonding costs aimed at aligning the agent's interests with those of the principal, and residual losses that persist despite oversight measures (Jensen & Meckling, 1979). Effective corporate governance mechanisms, such as independent boards and performance-based executive compensation, mitigate agency costs and ensure transparency. Behrmann et al. (2021) note that transparency in financial reporting and the presence of independent oversight bodies can reduce information asymmetry, thereby fostering accountability. However, the success of these mechanisms varies depending on organizational context and governance structures. Therefore, ongoing research emphasizes the need for tailored governance frameworks that balance managerial discretion with robust oversight.

Corporate governance mechanisms designed to mitigate agency conflicts include independent boards, performance-based compensation, and transparent financial disclosures. An independent board is crucial in objectively overseeing strategic decisions and financial policies. Trinh (2021) emphasizes that independent directors who are not involved in day-to-day operations contribute to more impartial assessments, thereby preventing opportunistic behavior by management. Performance-based compensation policies are essential for aligning executive remuneration with long-term organizational goals. Mumu et al. (2021) argue that linking compensation to performance indicators, such as revenue growth, financial stability, and ESG (Environmental, Social, and Governance) targets, fosters managerial accountability and reduces the likelihood of excessive risk-taking. However, these policies must be carefully calibrated to avoid incentivizing short-term gains at the expense of sustainability. Transparency in financial reporting is another vital element for enhancing shareholder trust. Sunny & Hoque (2025) highlight that transparent disclosures regarding project financing allow shareholders to evaluate risks and expected returns, thus minimizing management's potential for data manipulation. Moreover,

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governance committees, such as risk committees, ensure that financial decisions align with sustainability principles and stakeholder interests (Shabbir et al., 2024). Through these mechanisms, agency theory provides a conceptual foundation for understanding and mitigating conflicts of interest between principals and agents. Effective implementation of these governance practices can reduce agency costs and strengthen organizational accountability, fostering long-term corporate growth and stakeholder confidence.

Board Structure and Responsibilities

The composition and size of the board of directors are fundamental components in determining the effectiveness of corporate governance. A diverse board with members from various professional backgrounds and areas of expertise enhances the company's ability to conduct risk assessments and design appropriate financial strategies. Younas et al. (2019) emphasize that diversity, particularly in expertise and gender, contributes to inclusive, data-driven, and balanced decision-making processes. However, the size of the board must be carefully managed. While a larger board can provide a broader range of perspectives, it may also lead to coordination issues that delay decision-making (Merendino & Melville, 2019). In contrast, smaller boards often exhibit more agility in their deliberations, resulting in faster decision-making processes (Yitshaki et al., 2021). The board's role in overseeing financial policies and evaluating managerial performance also requires a balance between active oversight and granting management sufficient autonomy to implement operational strategies. Effective monitoring involves periodic evaluations of financial projects and executive compensation policies to ensure alignment with the company's strategic goals. The optimal board structure varies with a company's characteristics, indicating that governance practices must be context-specific to enhance effectiveness (Merendino & Melville, 2019). Additionally, forming specialized committees, such as audit and risk committees, can improve oversight efficiency and prevent the bureaucratic delays that larger boards often face (Younas et al., 2019). Ultimately, an optimally designed board serves as a supervisory body and a key driver of transparent governance and long-term corporate growth.

Board independence is crucial in ensuring objective decision-making and preventing conflicts of interest. Independent boards, consisting of most non-executive members, are expected to provide neutral assessments of strategic policies and financial decisions without being influenced by executives who may have direct stakes in the outcomes. Alzeban (2020) emphasizes that an audit committee with independent oversight significantly enhances the quality of financial reporting, thereby reinforcing stakeholder trust. However, achieving true independence requires balancing the distribution of authority to avoid excessive fragmentation that could hinder decision-making efficiency. Salehi et al. (2023) highlight that independent board members must also collaborate effectively with the executive team to prevent delays caused by bureaucratic inefficiencies. Beyond independence, decision-making efficiency remains a significant challenge, especially when boards face lengthy discussions and difficulty reaching consensus. Musallam (2018) argues that establishing specialized committees, such as audit and risk management committees, can streamline oversight and improve evaluation efficiency, particularly for complex financial projects. These committees focus on providing targeted recommendations, allowing the board to make informed decisions more swiftly. Salehi & Shirazi (2016) note that a well-functioning audit committee improves financial reporting transparency and strengthens corporate accountability by fostering comprehensive internal reviews. Ultimately, the structure and responsibilities of independent boards, when designed optimally, extend beyond mere oversight

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functions. They are key drivers of transparent governance and long-term corporate sustainability, ensuring that decisions align with the organization's strategic objectives and stakeholder expectations.

Executive Compensation Frameworks

Executive compensation packages are vital tools in corporate governance, designed to align executive interests with the organization's long-term goals (Dewi, 2023). These packages typically include base salaries, performance-based bonuses, stock options, and long-term incentives, each playing a distinct role in motivating executives. The base salary provides financial stability, while performance-based bonuses drive the achievement of short-term financial targets. Maas (2018) highlights that long-term incentives, such as stock-based compensation, encourage a commitment to sustainability and discourage excessive focus on immediate financial gains. However, when performance benchmarks lack transparency or consistency, compensation structures can foster moral hazard, where executives prioritize personal rewards over organizational stability. Hong et al. (2016) argue that linking compensation to corporate social responsibility (CSR) metrics can help mitigate this issue by aligning incentives with broader social and environmental goals. Integrating Environmental, Social, and Governance (ESG) indicators into executive compensation frameworks has become a prevalent trend. High-performing companies effectively balance financial and non-financial performance measures in compensation schemes, creating more transparent and measurable criteria (Needles et al., 2008). Nonetheless, challenges remain, particularly regarding the clarity of performance targets. Urcan & Yoon (2024) underscore the importance of standardizing accounting performance measures in compensation contracts to ensure consistency across governance contexts. Addressing these challenges is essential for fostering shareholder trust and ensuring that executive compensation policies support corporate growth and reflect the organization's commitment to sustainability and accountability.

Integrating Environmental, Social, and Governance (ESG) metrics into executive compensation frameworks has become an increasingly prominent practice in corporate governance. This approach promotes sustainable business operations, such as carbon emission reductions and greater social transparency. Cohen et al. (2023) explain that linking executive remuneration to ESG performance can strengthen accountability and foster long-term value creation. However, they emphasize that the success of these frameworks depends on the context of organizational governance and the company's readiness to adopt sustainability targets. Le & Ngo (2024) further highlight that board composition, particularly gender diversity, can influence the implementation of ESG-linked compensation, suggesting that diverse boards are more inclined to adopt balanced sustainability metrics. Despite its potential benefits, implementing ESG-based compensation structures presents challenges, particularly regarding transparency and evaluation criteria. Vague performance benchmarks can create ambiguity, reducing the credibility of such frameworks. Affes & Jarboui (2023) underscore that the lack of transparency in setting performance targets can lead to stakeholder distrust and conflicts of interest. They argue that clear, accountable criteria are necessary to mitigate such issues. Similarly, Lee et al. (2024) note that in the financial services industry, ESG-linked compensation can effectively align managerial incentives with sustainability goals when performance measures are well structured. Therefore, an optimal compensation framework must balance financial objectives with sustainability commitments, ensuring executive incentives drive corporate growth and social responsibility.

Governance in Financial Decision-Making

Effective corporate governance is critical in allocating capital and formulating sound financing strategies (Manginte, 2024). The robustness of governance practices strongly influences decisions on the debt-to-equity mix and project feasibility assessments. Tewari & Bhattacharya (2023) emphasize that transparent governance structures enhance stakeholder trust and reduce financing costs, thereby improving project outcomes. Financial committees within governance frameworks oversee financing policies and monitor investment risks to ensure alignment with strategic objectives. However, external factors, such as regulatory conditions and market volatility, can hinder governance effectiveness. Alodat et al. (2022) argue that board independence, including audit committee attributes, strengthens oversight and mitigates risks associated with non-transparent decision-making. Conversely, CEO duality—where the CEO also serves as the board chair—can create conflicts of interest and reduce accountability in financing approvals. Habib & Mourad (2024) further highlight that companies that integrate environmental, social, and governance (ESG) factors into their financial governance frameworks exhibit superior performance, underscoring the importance of comprehensive governance approaches. Moreover, Ali et al. (2024) assert that stakeholder pressures related to sustainability objectives influence corporate strategy design, underscoring the need for data-driven evaluations of project risks. Ultimately, an optimal governance framework ensures that financial decisions support long-term sustainability rather than focusing solely on short-term goals, balancing financial performance and organizational accountability.

Integrating strategic planning into financial decision-making governance extends beyond administrative oversight and requires a comprehensive framework (Wirawan, 2023). Principale (2023) emphasizes that aligning financial oversight with strategic planning enhances organizational performance by fostering coherent decision-making rather than fragmented governance. This alignment ensures that financial strategies, such as capital allocation and risk assessments, support long-term objectives. Effective governance requires objective and transparent performance indicators, which help prevent decisions driven by individual interests and promote accountability (Akuffo, 2020). They argue that standardized evaluation metrics improve board oversight by fostering consistency in financial policy assessments. A robust risk management framework also plays a pivotal role in financial decision-making. Umar et al. (2023) explain that risk management committees within governance structures can effectively monitor financing risks and implement mitigation policies to ensure financial stability. Their research shows that companies with active risk committees are more resilient during economic fluctuations. Similarly, Shan et al. (2024) stress the integration of environmental, social, and governance (ESG) considerations into corporate financial strategies. They note that companies embedding ESG factors into their governance frameworks experience greater stakeholder confidence and improved financial performance. Ultimately, comprehensive governance frameworks serve as a foundation for sustainable growth by balancing financial ambitions with strategic risk mitigation. Implementing consistent and transparent governance policies supports corporate growth and strengthens organizational resilience in competitive markets.

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Research Method

Study Design

This research employs a qualitative systematic literature review (SLR) to explore the role of governance in financial decision-making comprehensively. The SLR method was chosen for its structured approach to identifying, selecting, evaluating, and synthesizing relevant academic literature. The study aims to provide a holistic understanding of how governance frameworks influence financial strategies, risk management, and sustainability outcomes by focusing on peer-reviewed journal articles, books, and other credible publications.

Sample Population or Subject of Research

The primary focus of this research is academic literature published since 2018, with an emphasis on corporate governance, financial decision-making, and related risk management frameworks. The selection criteria include studies from reputable databases such as Elsevier, Emerald, Wiley, and Springer. Relevant studies are identified based on key themes, including capital allocation, governance mechanisms, CEO duality, and ESG integration within corporate financial practices. Inclusion criteria ensure that articles are selected that contribute to understanding governance dynamics, while exclusion criteria exclude articles unrelated to financial governance or that lack empirical or theoretical contributions.

Data Collection Techniques and Instrument Development

Data collection involves a systematic search of literature using predefined keywords such as "governance in financial decision-making," "executive compensation," and "risk management frameworks." Boolean operators are applied to refine the search process and ensure comprehensive results. The review protocol adheres to PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) guidelines to enhance transparency and replicability. Instrument development includes creating a data extraction form to systematically capture relevant findings, research objectives, and conclusions.

Data Analysis Techniques

The collected data are analyzed using thematic analysis to identify recurring themes, patterns, and gaps in the literature. This approach involves coding and categorizing findings to derive meaningful insights. The synthesis process highlights critical discussions, such as the impact of governance structures on financial performance and decision-making efficiency. This analysis provides a comprehensive foundation for addressing research questions and identifying areas for future exploration.

Results and Discussion

Analysis Result

Corporate governance plays a crucial role in shaping financing project decisions, underscoring the importance of well-established oversight mechanisms, such as the board of directors, risk committees, and supervisory policies. These elements guide resource allocation processes by

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determining optimal debt-to-equity ratios and evaluating project feasibility through strategic assessment (Dewi, 2023). Governance frameworks characterized by transparency and accountability bolster stakeholder trust, thus reducing financing risks and enhancing access to capital (Affes & Jarboui, 2023). A key element in this process is the risk management policy, which aligns financing decisions with the company's long-term objectives while mitigating financial vulnerabilities (Dongol & Shrestha, 2024). The involvement of financial committees within the governance structure strengthens decision-making by ensuring risk assessments are integrated into project approvals. Such practices contribute to the company's financial resilience and sustainability, allowing it to adapt to evolving market conditions and maintain consistent growth (Alodat et al., 2022). However, governance inefficiencies, such as weak oversight or conflicts of interest within decision-making bodies, can lead to suboptimal resource allocation. To prevent this, robust governance structures must incorporate clear accountability frameworks that empower independent committees to provide unbiased recommendations. When risk policies and financial oversight mechanisms are aligned, organizations can avoid excessive borrowing, reduce funding costs, ensure financial stability, and foster sustainable growth over time (Akuffo, 2020).

Executive compensation policies are pivotal in aligning management incentives with the organization's long-term strategic objectives. Core components of compensation packages—such as performance-based bonuses, stock options, and long-term rewards—are designed to motivate executives to focus on sustainable performance rather than short-term gains (Le & Ngo, 2024). However, poorly structured compensation schemes may lead to moral hazard, in which executives prioritize immediate financial rewards at the expense of long-term corporate health (Nienhaus, 2022). This issue underscores the importance of designing compensation frameworks that balance short-term incentives with long-term objectives. By incorporating non-financial performance indicators such as ESG metrics, companies can foster accountability and ensure that executive incentives align with broader sustainability goals (Cohen et al., 2023; Ali et al., 2024). For example, organizations that tie bonuses to environmental performance measures, such as carbon reduction targets, strengthen their commitment to responsible governance. Effective compensation policies also promote stakeholder confidence by demonstrating precise alignment between executive actions and corporate values (Maas, 2018). However, implementing such frameworks requires robust performance evaluation systems to ensure fairness and transparency. Companies must adopt multidimensional performance metrics that reflect financial performance and social responsibility, minimizing the risk of managerial opportunism and reinforcing accountability (Manginte, 2024). By doing so, compensation policies serve as motivational tools and strategic levers for reinforcing long-term corporate resilience and sustainability.

Transparency in governance plays a critical role in building stakeholder confidence and improving organizational performance. Transparent financial disclosures and clear governance frameworks enhance trust among shareholders and external stakeholders by demonstrating accountability and consistency in corporate practices (Salehi et al., 2023). Effective governance requires independent oversight bodies—such as audit and risk committees—that can mitigate conflicts of interest and ensure unbiased decision-making during project evaluations and executive compensation reviews (Manginte, 2024). These committees are essential for fostering organizational integrity and maintaining stakeholder trust. Additionally, comprehensive financial reporting and transparency in governance practices reinforce a company's legitimacy, improving its market positioning and competitive advantage (Reid et al., 2024). For example, companies that openly disclose executive compensation structures and financing strategies demonstrate a commitment to ethical governance,

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which can positively influence investor perceptions. However, the effectiveness of transparency measures depends on their consistency and the company's ability to address stakeholder concerns promptly (Behrmann et al., 2021). Firms that fail to provide clear and comprehensive disclosures risk damaging their reputations and facing regulatory scrutiny. Therefore, governance systems must prioritize clarity and timeliness in their reporting processes to strengthen stakeholder engagement and enhance organizational accountability.

The interplay between financing policies and executive compensation structures underscores the necessity of cohesive governance frameworks. When aligned, these policies foster organizational stability and support strategic growth by reinforcing consistent objectives across financial and managerial decisions (Carrothers, 2019). However, when misaligned, they can encourage opportunistic behavior that undermines corporate objectives (Cohen et al., 2023). For instance, high-risk financing decisions driven by short-term compensation incentives may increase financial instability. Effective governance mechanisms, such as independent financial committees, help ensure that executive compensation frameworks support long-term sustainability rather than incentivizing risky behavior (Elhabib, 2024). Moreover, strong internal controls and risk assessment processes help organizations identify and mitigate potential misalignments between compensation policies and corporate financial strategies (Lee et al., 2024). By ensuring that reward systems reflect both financial performance and long-term strategic goals, companies can mitigate the risks of high executive payouts during periods of underperformance (Shabbir et al., 2024). Aligning these frameworks also helps balance shareholder expectations and executive incentives, fostering a culture of accountability and strategic foresight. This approach safeguards financial stability and positions the organization for sustained growth in competitive markets.

Corporate governance operates as a dynamic system that extends beyond regulatory compliance to drive strategic business outcomes. This study highlights governance as a strategic enabler integrating performance incentives, accountability, and risk management to support sustainable growth (Torres, 2024). Governance frameworks must be adaptive to organizational changes and market dynamics to remain effective (Bui & Krajcsák, 2024). Strengthening governance policies that balance performance targets with risk mitigation strategies enhances corporate resilience, accountability, and long-term value creation (Shabbir et al., 2024). Companies can address emerging risks and capitalize on growth opportunities by adopting an integrated governance approach. Implementing adaptive governance mechanisms enables organizations to remain agile amid regulatory changes and stakeholder expectations (Principale, 2023). The findings underscore the importance of viewing governance as an evolving structure that supports strategic decision-making while fostering ethical conduct and transparency. Governance systems prioritizing innovation and stakeholder engagement are better equipped to navigate complex market environments and achieve sustainable growth. An integrated governance framework is a foundation for balancing compliance obligations with strategic foresight, contributing to the organization's competitiveness and long-term success (Sunny & Hoque, 2025).

Discussion

The findings of this study reveal that corporate governance mechanisms play a crucial role in determining the effectiveness of financial decision-making and executive compensation policies. The structure of an independent board of directors, the presence of risk committees, and the

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implementation of oversight policies are key components that influence the allocation of financial resources and the debt-to-equity composition. An independent board of directors serves as a balancing force, ensuring that the company's strategic decisions align with long-term objectives and are not driven by individual interests. The risk committee is pivotal in evaluating project financing risks and providing mitigation-focused recommendations to maintain the company's financial stability. Moreover, the study underscores the importance of transparency and accountability in financial reporting as tools to bolster stakeholder trust. Transparent, easily accessible financial reports allow investors and shareholders to assess the company's financial condition objectively. By fostering transparency, firms can reduce financing risks because increased trust in management often translates into broader access to capital at more favorable rates. This highlights how robust governance structures that emphasize transparency and risk mitigation strengthen internal processes and enhance external perceptions of financial credibility.

However, the effectiveness of corporate governance mechanisms is also influenced by contextual factors such as regulatory frameworks and market dynamics. In countries with stringent regulations, the implementation of governance policies tends to be more structured and consistent. Conversely, governance mechanisms often fall short of optimal implementation in developing nations facing resource constraints, creating oversight gaps and increasing the likelihood of unaccountable decision-making. This finding reinforces that effective corporate governance practices must be tailored to specific external contexts to achieve optimal outcomes. Additionally, the study finds that executive compensation policies are closely linked to governance mechanisms. Performance-based incentives can motivate executives to meet specific targets. However, if not designed with a balanced framework, such policies may lead to moral hazard, in which executives prioritize short-term gains over the company's long-term sustainability. Balancing financial rewards with sustainability goals underscores the need for governance structures that ensure executive compensation supports organizational resilience and strategic objectives. This interpretation aligns with the broader literature, emphasizing that governance frameworks must incorporate adaptive oversight mechanisms to mitigate opportunistic behavior.

The study further highlights that effective executive compensation policies require clear, transparent indicators, including the integration of financial and non-financial metrics, such as Environmental, Social, and Governance (ESG) criteria. ESG indicators reflect the company's commitment to sustainability practices and serve as comprehensive benchmarks for evaluating managerial performance. Incorporating ESG metrics into executive compensation strengthens stakeholder trust by demonstrating that the company actively integrates social responsibility into its strategy. This approach aligns with global expectations for corporate sustainability and enhances the company's reputation among socially conscious investors. However, the study finds that if the process of determining compensation lacks sufficient transparency, shareholder trust can decline due to perceived biases or conflicts of interest. To address this, compensation policies should be evaluated through independent oversight committees that provide unbiased assessments. These committees can serve as critical governance entities that align compensation frameworks with financial performance and ethical standards. The company can enhance its legitimacy and maintain long-term stakeholder support by reinforcing transparency and fostering accountability. Ultimately, this research underscores the interdependence between governance mechanisms and compensation policies, highlighting the need for integrative approaches prioritizing organizational performance and stakeholder trust.

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The findings of this study align with agency theory, which emphasizes the importance of oversight mechanisms to mitigate conflicts of interest between principals (shareholders) and agents (management). According to this theory, shareholders entrust the company's management to executives, expecting them to act in the shareholders' best interests. However, differing goals between the two parties can lead to conflicts, particularly when oversight systems are inadequate. The results of this research reinforce this perspective by demonstrating that transparent governance practices and independent oversight mechanisms can effectively reduce agency costs. Moreover, the findings support that incorporating non-financial indicators, such as ESG (Environmental, Social, and Governance) metrics, into executive compensation can enhance accountability and promote performance outcomes aligned with sustainability principles. Ali et al. (2024) also highlight that ESG indicators play a pivotal role in creating a company's competitive advantage by enhancing its reputation and public trust. This evidence suggests that corporate governance is not solely aimed at controlling risks but also serves as a strategic instrument that fosters sustainable corporate growth. By integrating robust monitoring practices and non-financial performance measures, companies can balance the interests of shareholders and executives, reduce information asymmetry, and strengthen stakeholder confidence. This reinforces the view that governance frameworks should be dynamic and adaptive to ensure long-term organizational resilience and growth.

The findings of this study also align with previous research conducted by Bui and Krajcsák (2024), who emphasized that transparency in corporate governance enhances investor trust and strengthens financial stability. However, this study further reveals that the effectiveness of governance mechanisms can be influenced by board composition and the presence of risk committees. Merendino and Melville (2019) highlighted that overly large boards can hinder decision-making due to coordination complexity. These findings underscore the importance of balancing board size to ensure adequate oversight and streamlined decision-making. Cohen et al. (2023) also demonstrated that integrating ESG (Environmental, Social, and Governance) metrics into executive compensation policies can attract sustainability-focused investors. This study supports those results and adds that ESG indicators can mitigate moral hazard by incentivizing long-term commitments rather than short-term gains. By aligning executive incentives with sustainable objectives, companies can foster more responsible management practices that resonate with stakeholder expectations. These combined insights emphasize the necessity of governance structures that enhance transparency and embed strategic performance measures. Ultimately, the study highlights that adopting ESG metrics within governance frameworks bolsters the company's sustainability credentials and reinforces its overall resilience and market competitiveness by meeting financial and social performance goals.

Practically, the findings of this study provide actionable recommendations to strengthen corporate governance. First, companies should strengthen the roles of audit and risk committees in overseeing financing and compensation policies to ensure that decision-making is accountable and aligned with the company's strategic objectives. Second, integrating ESG (Environmental, Social, and Governance) metrics into executive compensation policies can serve as a strategic step to enhance the company's reputation and attract new investors. Third, financial reporting should be conducted more transparently by adopting accountable and comprehensive reporting standards. Transparency in reporting can build stakeholder trust and strengthen the organization's legitimacy in the public eye. Implementing governance mechanisms that are adaptive and responsive to regulatory changes and global market expectations will enhance the company's competitive advantage and support long-term sustainable growth. Therefore, strengthening corporate governance should involve balancing financial targets, risk management, and a commitment to sustainability. By adopting integrative governance policies, companies can maintain financial stability while improving their competitiveness in the international market. Effective governance practices are both a safeguard against financial risks and a strategic enabler for sustained growth, aligning corporate performance with stakeholder expectations and global standards for accountability and transparency.

Conclusion

This study aimed to analyze the role of corporate governance in the design of financing projects and executive compensation by addressing key research questions related to decision-making processes, governance structures, and incentive policies. The findings indicate that corporate governance mechanisms, such as independent boards, risk committees, and transparent reporting, significantly contribute to accountability for financial decisions and strategic alignment. Additionally, integrating ESG (Environmental, Social, and Governance) metrics into executive compensation has emerged as a critical approach for fostering long-term organizational commitment and sustainability. By examining these interconnected elements, the study offers a comprehensive understanding of how governance frameworks influence both financing strategies and compensation policies, thereby supporting stakeholder trust and organizational resilience.

The value of this research lies in its contribution to both academic discourse and practical governance practices. Theoretically, the study expands the understanding of governance mechanisms by highlighting their dual role as compliance tools and strategic enablers. The original contribution of this research is its emphasis on the interconnectedness of financial decision-making and executive compensation within governance frameworks. Practically, the findings underscore the need for firms to adopt integrated governance policies that strengthen transparency, accountability, and stakeholder engagement. Organizations can enhance their competitive edge and support sustainable growth by reinforcing the roles of audit and risk committees, incorporating ESG metrics into incentive systems, and improving financial disclosure practices. This research provides actionable insights for policymakers and corporate leaders, emphasizing the importance of adaptive and responsive governance practices in an increasingly dynamic market environment.

The primary constraint is its reliance on a systematic literature review (SLR) approach, which may limit empirical verification of findings across diverse organizational contexts. Additionally, differences in regulatory frameworks and market conditions may affect the generalizability of the results. Future research could benefit from empirical studies that compare governance practices across sectors and regions. Expanding the dataset to include longitudinal studies could provide deeper insights into the long-term impact of governance reforms on financial performance and executive behavior. Researchers are encouraged to explore innovative governance models that address evolving challenges in corporate accountability, thereby contributing to more adaptive and effective governance systems.

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Corresponding author

Nur Amalianty can be contacted at: amelianty26@gmail.com