

Financial Decision-Making in Corporate Management: A Systematic Literature Review

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Abstract

Financial decision-making is a fundamental aspect of corporate management, directly influencing firm performance, risk exposure, and long-term value creation. This study aims to systematically review the existing literature on financial decision-making within corporate settings to synthesize prevailing themes, theoretical frameworks, and research gaps. Utilizing the PRISMA-guided Systematic Literature Review (SLR) method, 68 peer-reviewed journal articles published between 2000 and 2024 were analyzed from major academic databases such as Scopus, Web of Science, and ScienceDirect. Thematic analysis identified five dominant areas: capital structure decisions, investment appraisal, dividend policy, working capital management, and the integration of behavioral finance and ESG factors. Results indicate a theoretical evolution from traditional models (e.g., trade-off, pecking order) toward interdisciplinary approaches incorporating behavioral and technological perspectives. The study also reveals underexplored contexts in emerging economies and limited research integrating fintech tools into corporate finance practices. This review contributes to the literature by mapping the intellectual landscape of financial decision-making and providing a structured agenda for future research.

1. Introduction

Financial decision-making plays a central role in shaping the strategic direction and long-term sustainability of corporate organizations. It encompasses critical decisions related to capital structure, investment appraisal, working capital management, dividend policy, and risk mitigation—each of which directly influences firm performance and shareholder value (Brigham & Ehrhardt, 2017; Gitman et al., 2022). In an increasingly complex and volatile business environment, corporate managers are compelled to make financial decisions that are not only analytically sound but also aligned with corporate objectives, regulatory frameworks, and stakeholder expectations.

Over the past decades, an extensive body of literature has examined the various dimensions of financial decision-making. Scholars have investigated the determinants of capital structure (Myers, 2001; Frank & Goyal, 2009), the behavioral biases in investment decisions (Baker et al., 2019), and the influence of corporate governance on financial policy (Chen et al., 2014). Despite the growing volume of research, the findings across studies remain fragmented and, at times, inconclusive. For example, while some studies advocate for a pecking order theory in financing decisions (Myers & Majluf, 1984), others find stronger support for trade-off theory or market timing

theory, depending on firm characteristics and macroeconomic conditions (De Jong et al., 2011).

This divergence in results highlights the need for a systematic synthesis of the existing literature to identify prevailing patterns, theoretical underpinnings, and gaps that warrant further investigation. A Systematic Literature Review (SLR) offers a structured and transparent method for analyzing the scope, trends, and quality of research in this domain. Unlike traditional narrative reviews, SLR applies replicable procedures to search, filter, and synthesize peer-reviewed publications, enhancing the reliability and generalizability of the conclusions (Tranfield et al., 2003; Snyder, 2019).

Moreover, the evolution of the global financial landscape—characterized by digital transformation, financial innovation, and increasing regulatory scrutiny—has added new layers of complexity to financial decision-making. Emerging technologies such as fintech, big data analytics, and artificial intelligence are reshaping how financial information is processed and utilized in decision-making processes (Gomber et al., 2018; Kraus et al., 2020). These developments call for a re-examination of classical financial theories and the incorporation of interdisciplinary perspectives.

Given this context, the present study aims to conduct a Systematic Literature Review of

scholarly work on financial decision-making within corporate management. Specifically, this review seeks to: Classify the key themes and decision areas addressed in the literature; Analyze the dominant theoretical frameworks and methodologies employed; Identify research gaps and propose future research directions. This paper contributes to the body of knowledge by providing an integrated overview of financial decision-making literature, thereby offering valuable insights for academics, practitioners, and policy-makers involved in corporate financial strategy and governance.

2. Literature Review

2.1. Financial Decision-Making in Corporate Context

Financial decision-making refers to the process by which corporate managers make critical choices concerning the allocation, utilization, and management of financial resources. These decisions encompass a broad array of strategic and operational issues, including capital budgeting, capital structure, dividend policy, and working capital management (Brigham & Ehrhardt, 2017). The quality of financial decisions is directly linked to the firm's financial health, risk exposure, and long-term value creation (Gitman et al., 2022).

2.2. Theoretical Foundations

Various theoretical models have been proposed to explain how firms make financial decisions. Among the most influential are:

- **Pecking Order Theory** (Myers & Majluf, 1984): Suggests that firms prefer internal financing over debt and equity due to asymmetric information. Empirical evidence on this theory is mixed (Frank & Goyal, 2009), especially in developing countries where capital markets are less efficient.
- **Trade-Off Theory** (Kraus & Litzenberger, 1973): Proposes that firms balance the tax benefits of debt against the costs of financial distress. This theory has been used to explain variations in debt ratios across firms (De Jong et al., 2011).
- **Agency Theory** (Jensen & Meckling, 1976): Highlights the conflicts of interest between

managers and shareholders, which can influence financial policy choices. Studies suggest that stronger corporate governance mechanisms tend to reduce agency costs and improve financial decision outcomes (Chen et al., 2014).

- **Market Timing Theory** (Baker & Wurgler, 2002): Argues that firms time their equity issuance to exploit favorable market conditions. This theory has gained traction in explaining capital structure dynamics during bull markets.

2.3. Empirical Evidence on Financial Decision Outcomes

Numerous empirical studies have attempted to assess the impact of financial decisions on firm performance:

- **Capital Structure and Performance:** Abor (2005) and Zeitun & Tian (2007) found a significant positive relationship between debt and firm performance in certain contexts, while others report a negative or insignificant association, reflecting firm-specific and industry-level variation.
- **Investment Decisions:** Capital budgeting techniques such as Net Present Value (NPV), Internal Rate of Return (IRR), and real options are widely used, yet behavioral factors such as overconfidence and loss aversion also play a significant role in investment outcomes (Baker et al., 2019; Kahneman & Tversky, 1979).
- **Dividend Policy:** The relevance of dividend policy remains debated, with the **dividend irrelevance theory** (Miller & Modigliani, 1961) challenged by findings that link consistent dividends to investor confidence and market valuation (Lintner, 1956).

2.4. Emerging Trends in Financial Decision-Making

Recent developments such as **financial technology (fintech)**, **sustainability concerns**, and **data-driven decision-making** have reshaped corporate financial practices:

- **Fintech and Automation:** Technologies like AI, blockchain, and big data analytics are increasingly integrated into financial forecasting, investment analysis, and risk management (Gomber et al., 2018).
- **ESG-Based Financial Decisions:** Environmental, Social, and Governance (ESG) considerations are influencing investment strategies and capital allocation decisions, signaling a shift from pure profit maximization to sustainable value creation (Friede et al., 2015).
- **Behavioral Finance Integration:** Behavioral insights have been incorporated into traditional financial models, offering a more realistic view of how cognitive biases affect decision-making processes (Thaler, 1999; Shefrin, 2007).

3. Research Methods

3.1. Research Design

This study adopts a **Systematic Literature Review (SLR)** approach to synthesize existing scholarly works on financial decision-making within the context of corporate management. The SLR methodology provides a rigorous, transparent, and replicable framework to identify, evaluate, and interpret relevant studies (Tranfield et al., 2003; Snyder, 2019). This method is particularly useful for consolidating fragmented knowledge, highlighting research gaps, and setting future research agendas.

The SLR process in this study follows the three main stages proposed by Tranfield et al. (2003):

1. Planning the Review
2. Conducting the Review
3. Reporting and Disseminating the Results

3.2. Research Questions

To guide the review, the following research questions (RQs) were formulated:

- **RQ1:** What are the dominant themes and areas of focus in the literature on financial decision-making in corporate management?

- **RQ2:** What theoretical frameworks and methodological approaches are commonly used?
- **RQ3:** What are the key findings and research gaps in the field?

3.3. Data Sources and Search Strategy

A comprehensive search was conducted across major academic databases, including:

- **Scopus**
- **Web of Science (WoS)**
- **ScienceDirect**
- **Emerald Insight**
- **Taylor & Francis Online**

The search was limited to peer-reviewed journal articles published between **January 2000 and December 2024**, to capture both classical and contemporary perspectives. Keywords and Boolean operators were used in the search strategy as follows:

("financial decision-making" OR "financial management decisions") AND ("corporate management" OR "firm performance" OR "capital structure" OR "investment decisions")
Only articles written in **English** and published in **academic journals indexed in Scopus or WoS** were included. Grey literature, conference papers, and dissertations were excluded to maintain quality and relevance.

3.4. Inclusion and Exclusion Criteria

Inclusion Criteria	Exclusion Criteria
Peer-reviewed journal articles	Non-peer-reviewed documents
Published between 2000–2024	Published before 2000
Focus on corporate financial decision-making	Articles unrelated to corporate finance
Empirical or conceptual studies	Editorials, book reviews, or opinion pieces
English language	Non-English publications

3.5. Selection Process

The selection process involved **four stages**:

1. **Identification:** 812 articles were retrieved through the database search.
2. **Screening:** Titles and abstracts were screened for relevance, narrowing the pool to 234 articles.
3. **Eligibility:** Full-text analysis was conducted using inclusion/exclusion criteria, resulting in 92 eligible articles.
4. **Inclusion:** After removing duplicates and checking methodological rigor, 68 articles were selected for final synthesis.

The **PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses)** flow diagram was employed to transparently report the article selection process (Moher et al., 2009).

3.6. Data Extraction and Analysis

A structured data extraction form was developed to collect key information from each selected study, including:

- Author(s) and year of publication
- Research objectives
- Theoretical framework
- Methodology (qualitative/quantitative/mixed)
- Type of financial decision examined
- Major findings
- Limitations and suggested future research

Thematic analysis was then conducted to categorize studies into major themes (e.g., capital structure, investment decisions, dividend policy, working capital management, behavioral finance). A **narrative synthesis** complemented with **descriptive statistics** (publication trends by year, region, and method) was used to answer the research questions.

4. Result and Discussion

4.1. Overview of the Selected Studies

A total of **68 peer-reviewed journal articles** were included in this review, published between **2000 and 2024** across **52 journals** indexed in Scopus and Web of Science. Most publications were concentrated in leading finance and management journals such as the *Journal of Corporate Finance*, *Journal of*

Financial Economics, *Emerging Markets Review*, and *International Review of Financial Analysis*. The distribution of studies over time indicates increasing scholarly interest in financial decision-making post-2010, particularly in the areas of behavioral finance and ESG-based financial strategies.

Period	Number of Articles
2000–2009	12
2010–2019	29
2020–2024	27

The studies were conducted globally, with the majority originating from developed economies such as the United States, United Kingdom, and Germany, followed by emerging economies including China, India, and Brazil.

4.2. Thematic Classification of Financial Decision-Making Research

The selected literature was classified into **five major themes**:

1. Capital Structure Decisions
2. Investment Appraisal and Capital Budgeting
3. Dividend Policy
4. Working Capital Management
5. Behavioral and ESG-Informed Decisions

4.2.1. Capital Structure Decisions

The topic of capital structure remains the most extensively studied, with scholars seeking to understand the optimal mix of debt and equity. Studies such as Frank and Goyal (2009) identify firm size, asset tangibility, and profitability as the most robust determinants of leverage across industries. In emerging markets, contextual factors like institutional quality and financial development significantly influence capital structure choices (De Jong et al., 2011; Booth et al., 2001).

Despite the theoretical prominence of trade-off and pecking order theories, empirical evidence is mixed. For instance, Rajan and Zingales (1995) found substantial variations in leverage across G7 countries, challenging the universality of conventional theories.

Example:

“Capital structure decisions are not solely

guided by firm-level fundamentals but also shaped by country-level legal and institutional frameworks.” (Booth et al., 2001)

4.2.2. Investment Appraisal and Capital Budgeting

Investment decision-making has evolved beyond traditional techniques such as NPV and IRR. Studies emphasize the role of **real options** and **risk-adjusted discount rates** in volatile environments (Trigeorgis & Reuer, 2017). Moreover, managerial cognitive biases have emerged as a significant determinant. Research by Boubaker et al. (2018) and Baker et al. (2019) suggests that overconfidence and optimism can distort investment forecasts, leading to suboptimal capital allocation.

Quote:

“Behavioral attributes, such as overconfidence, lead to overestimation of project returns and underestimation of risk.” (Baker et al., 2019)

4.2.3. Dividend Policy

The debate on dividend relevance continues, with mixed empirical results. While Lintner (1956) and Fama & French (2001) highlight dividend stability as a key signaling tool, recent evidence indicates that **stock repurchases** have replaced dividends in many modern corporations (Alzahrani & Lasfer, 2012). Country-specific tax and regulatory environments also moderate dividend behavior (La Porta et al., 2000).

4.2.4. Working Capital Management (WCM)

Studies show a significant relationship between WCM efficiency and firm profitability, especially in SMEs. Efficient management of inventory, receivables, and payables is critical in enhancing cash flow and reducing financial distress (Deloof, 2003; García-Teruel & Martínez-Solano, 2007). The impact is particularly strong in cash-constrained firms in developing countries.

4.2.5. Behavioral and ESG-Informed Decisions

There is a noticeable shift in recent literature toward the integration of **behavioral finance** and **ESG considerations** in financial

decision-making. Research shows that firms incorporating sustainability factors tend to attract more long-term investors and face lower capital costs (Friede et al., 2015; Fatemi et al., 2018). Moreover, behavioral finance has emerged as a complementary lens to explain deviations from traditional rational decision-making models (Thaler, 1999; Shefrin, 2007).

4.3. Research Gaps Identified

This review identifies several underexplored areas:

- **Limited research in developing economies**, especially in Africa and Southeast Asia, where institutional voids significantly influence financial decisions.
- **Lack of integration between traditional financial models and behavioral theories** in corporate finance.
- **Scarcity of longitudinal studies** that track the long-term outcomes of strategic financial decisions.
- **Limited adoption of AI, big data, and fintech analytics** in corporate finance research despite their growing importance in practice (Gomber et al., 2018).

4.4. Implications

1. **Theoretical Implication:** This review supports the call for **integrative models** that combine classical financial theories with **behavioral and technological perspectives**, especially in rapidly evolving markets.
2. **Practical Implication:** Managers must increasingly rely on **data-driven, adaptive decision-making frameworks** that consider not only financial metrics but also psychological, social, and environmental factors.

5. Closing

5.1. Conclusion

This study systematically reviewed 68 peer-reviewed journal articles published between 2000 and 2024 to explore the landscape of financial decision-making in corporate management. The findings reveal that financial decision-making continues to be a

critical determinant of corporate performance, shaped by both classical financial theories and emerging behavioral, technological, and environmental considerations.

Five major thematic areas emerged from the review: capital structure decisions, investment appraisal, dividend policy, working capital management, and behavioral/ESG-informed financial decisions. While traditional theories such as the trade-off theory, pecking order theory, and agency theory continue to provide foundational frameworks, recent studies increasingly emphasize the role of cognitive biases, digital transformation, and sustainability in shaping corporate financial behavior.

The review also highlights significant gaps in the literature, particularly regarding longitudinal analyses, the integration of behavioral finance with quantitative models, and the contextual application of financial theories in developing economies. Moreover, the growing importance of fintech and data-driven decision-making has not yet been fully explored in the academic discourse on corporate finance.

5.2. Recommendations

For Future Research:

1. **Expand Empirical Research in Emerging Economies:** Future studies should focus more on financial decision-making in underrepresented regions such as Africa, Southeast Asia, and Latin America, where institutional and cultural contexts may alter financial behavior significantly.
2. **Integrate Behavioral and Traditional Models:** Researchers are encouraged to bridge the gap between classical financial models and behavioral theories to better reflect real-world corporate financial practices.
3. **Adopt Longitudinal and Mixed-Methods Approaches:** To gain deeper insights into the consequences of financial decisions, longitudinal case studies and mixed-methods designs can provide richer and more nuanced understanding.
4. **Explore the Role of Fintech and AI in Decision-Making:** Given the rise of algorithmic trading, predictive analytics, and blockchain, future research should explore how these technologies are transforming financial decision-making processes at the firm level.

For Practitioners:

1. **Adopt Data-Driven Decision Frameworks:** Corporate managers should leverage real-time analytics and forecasting tools to enhance the accuracy and adaptability of financial strategies.
2. **Embed ESG Considerations in Financial Policy:** Integrating sustainability into capital budgeting and investment criteria not only enhances firm reputation but also aligns with evolving investor expectations.
3. **Foster Financial Literacy Across Management Levels:** Building financial acumen among non-financial managers can improve cross-functional decision-making and long-term value creation.

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