



The Role of Corporate Governance in Controlling Strategic Deviation and Optimizing the Debt Maturity Structure of Companies

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OPEN ACCESS

Article type: Research Article

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Received: October 12, 2025

Accepted: January 29, 2026

Published: winter 2026

Citation: Haji Mohammadi Aghkand, A. and Shahbazi niya, M. S. (2025). Examining the Role of Corporate Governance in Controlling Strategic Deviation and Optimizing the Debt Maturity Structure of Companies. *Strategic Management Accounting*, 2(4), 67-91.

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Abstract

This study examines the role of corporate governance in controlling strategic deviation affecting the debt maturity structure of companies listed on the Tehran Stock Exchange during the period 2012–2021. For the theoretical framework and related research, library sources including domestic and international articles were utilized. Additionally, data were collected from Tehran Stock Exchange databases such as the Codal website for analysis. After data extraction, classification, and summarization, the data were entered into Excel; then, the data were organized by year and company symbol and converted into panel data format to facilitate statistical software processing. Subsequently, the hypotheses were tested using a multivariate regression model with year and industry fixed effects in STATA, along with necessary statistical tests. The key findings indicate that strategic deviation has a significant negative effect on short-term debt, with firms that exhibit greater strategic deviation tending to use more long-term debt to mitigate short-term financing risks. Contrary to prior studies, institutional shareholders did not have a significant impact on short-term debt, which may be attributed to specific conditions in the Iranian market. This research innovatively investigates the simultaneous role of corporate governance and strategic deviation in determining the debt maturity structure. Practical implications suggest that managers should consider the adverse effects of strategic deviation in their financial decisions, and institutional investors should carefully assess the risks associated with firms' strategic deviations. These findings contribute substantially to the advancement of financial and managerial knowledge in debt structure and corporate governance and provide a practical framework for enhancing financial decision-making in Iran's capital.

Keywords: Strategic deviation, Debt maturity, Information asymmetry, corporate governance.

JEL Classification: G3, O16, G34.

DOI: <https://doi.org/10.22034/smajournal.2026.552930.1174>

INTRODUCTION

The debt structure is one of the important indicators determining the success of a company and leads to sustainable growth. Therefore, decisions related to the debt structure are vital for the commercial survival of the company. Considering the role that debt maturities play in environments with asymmetric information, the use of short-term debts provides a mechanism that can reduce information asymmetry and agency costs among shareholders, creditors, and managers. Institutional investors, over the past twenty years, have become majority shareholders, and therefore have influenced the factors affecting companies through corporate governance. Institutional investors have two incentives, namely fiduciary responsibilities and higher investment returns, to manage their investment portfolios. Compensation policies provide managers with the opportunity to seek private information to improve their performance. The pursuit of private information by institutional investors is considered important because of the potential benefits related to it in the business unit. Additionally, managers of companies with institutional ownership are compelled to implement various strategies to satisfy the owners.

The aim of this research is to identify the effect of corporate governance system in the country's industry and commerce. In this regard, it will study the impact of corporate governance factors on company performance with a focus on their debt structure. Corporate governance, through mechanisms such as institutional shareholders and the board of directors, can influence decisions related to company performance and debt maturity structure. The involvement of institutional shareholders in financing via debt and the effective role of the board of directors in determining company strategy have motivated this research to examine the impact of corporate governance and strategic deviation of companies on their debt maturity structure. Accordingly, a deviated strategy diverges from industry norms, whereas a conforming strategy aligns with industry norms. According to recent studies, strategic deviation is conceptualized as the degree of difference in the allocation of strategic resources of a company compared to its industry peers ([Dong, et al. 2021](#); [Taghipour, et al. 2021](#)).

Recent evidence shows that companies that deviate strategically from their industry peers suffer from information asymmetry that, in turn, affects stock price synchronicity ([Ye, et al. 2021](#); [Taghipour, et al. 2021](#)), which can intensify agency problems. According to this concept, Dong et al. ([Dong et al., 2021](#)) and Badaornehendi, et al. ([Badaornehendi, et al. 2022](#)) show that strategic deviation leads to changes in firms' cash holdings and can affect the value of liquid assets ([Dong et al., 2021](#)).

This study is important and contributes to the literature in several ways and expands it. First, it extends the growing body of literature on debt maturity structure ([Hasan, et al. 2022](#); [Seyedsadeghi Namin, et al. 2022](#); [Jafari, et al. 2021](#)). This study will provide new evidence that corporate strategic deviation plays an important role in debt maturity. Furthermore, this study contributes to emerging literature showing that strategic deviation affects stock return synchronicity ([Taghipour et al., 2021](#); [Ye et al., 2021](#)) and firm cash holdings ([Badaornehendi et al., 2022](#); [Dong et al., 2021](#)).

This study will examine how strategic deviation influences firms' choice of debt maturity. From this perspective, this is the first study to investigate the impact of strategic deviation on companies' financing decisions. Moreover, by highlighting the extent of information asymmetry and corporate governance in the impact of strategic deviation on firms' debt maturity structure, this research contributes to the literature. Finally, the findings of this research carry important practical implications. For example, since strategic deviation limits companies' access to long-term financing, managers should consider the adverse effects of strategic deviation in the development of corporate strategies. Additionally, investors should also consider the implications of deviant business strategies in their investment decisions.

METHODOLOGY

Selecting an appropriate research method depends on the nature, objectives, subject of the research, and the practical feasibility of implementation. This chapter examines the research method, including its dimensions and related topics, statistical population, accessible sample, research hypotheses, research variables, data collection methods, and the types of partial and overall tests for data analysis. All

activities carried out to achieve the research objectives are defined as methods, and the activities through which the researcher attains rules and realities are considered research ([Danaeefard., et al. 2021](#)).

This study investigates the effect of strategic deviation on the debt maturity structure of companies listed on the Tehran Stock Exchange. The most important stage in conducting scientific research is selecting the correct research method for its implementation. The choice of research method is made by the researcher according to the topic and type of research, and the researcher must exercise due care in selecting the appropriate method. The term "research method" refers to the manner in which data is collected, analyzed, and processed.

RESULTS

This research is strategic-quantitative, goal-oriented-descriptive, employs an empirical approach, and uses a combination of library-based and fieldwork methods. In terms of its content and nature, the research methodology is correlational. It analyzes correlation relationships by utilizing historical data extracted from stock prices, financial statement figures, and accompanying explanatory notes of companies listed on the Tehran Stock Exchange. The research will be conducted within a framework of deductive-inductive reasoning.

The method for selecting the accessible population is exclusionary and screening-based. Among the manufacturing companies listed on the Tehran Stock Exchange, firms meeting the specified criteria outlined above were selected as the sample. This research is applied. In applied research, testing and examining the applicability of knowledge are the objectives. In other words, it is research that applies theories, principles, and techniques to solve practical and real-world problems.

To test the research hypotheses, a mathematical model employing multivariate regression is fitted. First, given that the statistical data are panel data, the hypotheses are tested accordingly. Based on the coefficient values and significance probability levels of the independent variables in the econometric software output tables, the sign and significance of the relationships between independent and dependent variables under the model are assessed and reported.

Data and observations of variables in a model can typically take three forms: time-series, cross-sectional, or pooled (panel) data. In this study, data and observations were collected using panel data. Deficiencies exist in both time-series and cross-sectional models, which panel data models mitigate by enabling more efficient parameter estimation. Usually, serial correlation is a problem in time-series models, and heteroscedasticity affects statistical inference. In panel or pooled data, by increasing the number of observations and degrees of freedom, multicollinearity among independent variables decreases, enhancing the efficiency of econometric estimation. Additionally, individual behaviors over time are better explained. Panel data are datasets where observations are made on several cross-sectional units (companies) over a specific period (years). In recent years, the use of panel data methods to test hypotheses within economic and accounting perspectives has been increasing.

CONCLUSION

The results of data analysis showed that strategic deviation has a significant negative impact on short-term debt, and information asymmetry intensifies the relationship between strategic deviation and short-term debt. However, the findings did not show a significant effect of institutional shareholders on short-term debt, and institutional shareholders were unable to significantly influence the relationship between strategic deviation and short-term debt. The results indicate that short-term debt exposes the company to refinancing risk, which is exacerbated during periods of uncertainty. Since strategic deviation increases uncertainty and refinancing risk, it compels managers to reduce reliance on short-term debt. The findings also indicate that companies strategically different from their industry peers are more vulnerable to information asymmetry. Reducing information asymmetry improves limited access to long-term debt, causing companies to rely less on short-term debt.

Therefore, strategic deviation indirectly affects short-term debt through its impact on information asymmetry. These results align with the arguments presented by Dong et al. ([Dong et al. 2021](#)).

The study's findings could not confirm the agency theory argument that companies strategically deviating from industry peers are more vulnerable to agency problems and that weak governance structures limit access to long-term debt, forcing reliance on short-term debt.

The outcomes of this research differ from those of Sagira et al. ([Sagira et al. 2022](#)) in publicly traded companies in the United States. They found a positive relationship between strategic deviation and short-term debt and noted that this relationship is mediated through direct and indirect channels (information asymmetry and corporate governance mechanisms). Overall, their findings suggest that strategic deviation has important impacts on corporate financing decisions.

The findings in this study have significant theoretical, managerial, and practical implications.

Theoretically, this study expands the emerging literature exploring the consequences of strategic deviation for corporate outcomes. By demonstrating that strategic deviation is a determinant of debt maturity, it also contributes to corporate debt maturity structure literature.

The results show that strategic deviation exposes companies to reduced refinancing risk and improves access to long-term debt. Therefore, corporate managers should acknowledge the positive implications of strategic deviation in setting company policies.

The findings also suggest that investors should carefully evaluate the strategic deviation of companies in their investment decisions, as strategic deviation may expose investors to positive outcomes.

Contribution of Authors

This research article was conducted by two authors.

Ethical Approval

This research article was carried out in compliance with research ethics principles and with the informed consent of participants.

Sponsor

This research article did not receive any financial support from any organization or institution.

Conflict of Interest

No conflict of interest has been declared by the authors of this research article.

Acknowledgements

We express our gratitude to all the researchers who guided and assisted us in completing this research article.

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