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Corporate Governance
Recent Advances and Perspectives

Edited by Okechukwu Lawrence Emeagwali and Feyza Bhatti

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Published in London, United Kingdom







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http://dx.doi.org/10.5772/intechopen.94778
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First published in London, United Kingdom, 2022 by IntechOpen
IntechOpen is the global imprint of INTECHOPEN LIMITED, registered in England and Wales, registration number: 11086078, 5 Princes Gate Court, London, SW7 2QJ, United Kingdom
Printed in Croatia

British Library Cataloguing-in-Publication Data
A catalogue record for this book is available from the British Library

Additional hard and PDF copies can be obtained from orders@intechopen.com

Corporate Governance - Recent Advances and Perspectives
Edited by Okechukwu Lawrence Emeagwali and Feyza Bhatti
p. cm.
Print ISBN 978-1-83969-815-6
Online ISBN 978-1-83969-816-3
eBook (PDF) ISBN 978-1-83969-817-0

Meet the editors

Dr. Okechukwu Lawrence Emeagwali holds a Ph.D. in Management (Strategy Focus) from Girne American University, Cyprus, where he is currently an Associate Professor of Strategic Management and Head of the Department of Business Management. Dr. Emeagwali is also the director of the faculty's Center for Management Research (CMR), a member of the Strategic Management Society (SMS), and an active researcher within the field of strategic management. His current research interests focus on understanding the strategic and disruptive thinking patterns among upper echelons and top management teams. Dr. Emeagwali has authored and co-authored more than twenty publications in internationally refereed journals.

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Contents

Preface

This edited volume is a collection of research chapters on the developments within the field of corporate governance. It includes scholarly contributions by various authors and edited by a group of experts.

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Chapter 2: "A Review on Corporate Social Responsibility (CSR) Constructs and Theoretical Debate in Pakistan" by Zaheer Alam and Kashif Rashid

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Chapter 13: “Board Gender Diversity and Firm Risk” by Zyed Achour

The target audience for this book is scholars and specialists in the field.

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Section 1

Corporate Governance Reviews: Agency and Responsibility

Chapter 1

Agency Theory and Internationalization: A Critical Assessment of Literature

Sandeep Yadav

Abstract

This study consolidates the state of academic research using agency theory to explain the various phenomena's in the multinational firm's (MNCs) context. Based on the systematic review of the literature, the author finds that agency theory is used to examine the degree of internationalization, international diversification, born global internationalization, and governance issues in various modes of foreign entries. The author classifies the literature in three broad themes: corporate governance, firm ownership, and born global firms. Agency theory is also used to examine the impact of top management characteristics, board structure, ownership by domestic investors, foreign investors, business group firms, family ownership, and state ownership on the firm internationalization decisions. The study concludes with the research gaps and future research directions.

Keywords: Agency Theory, Internationalization, Systematic Review, Ownership, Top Management Team, Board of Directors

1. Introduction

The last three decades have witnessed explosive research on the corporate governance of multinational firms (MNCs). The performance of MNCs is based on four commonly held arguments in the literature. First, MNCs can achieve economies of scale with their knowledge of specific asset exploitation at a larger scale [1]. Second, the internalization of the activities within the firm reduces the agency problem in the MNCs [2, 3]. Third, MNCs can get financial resources at the lowest possible cost in the international market [4, 5]. Finally, MNCs have strong corporate governance mechanisms to maximize the firm value [6, 7]. Earlier studies in the international business literature have been more concerned with the internalization theory to efficiently control the resource allocation to minimize the transaction cost [8]. Buckley and Strange [8] called for use of the agency theory to understanding the governance issue in the MNCs with the inclusion of the strategic and behavioral aspects of the various stakeholders in the different country contexts.

This study reviews the literature on MNCs using the agency theory. The author finds that agency theory is used to examine the degree of internationalization, international diversification, born global internationalization, and governance issues in various modes of foreign entries. Agency theory is used to analyze the impact of top management characteristics, board structure, ownership by domestic investors, foreign investors, business group firms, family ownership, and state ownership on the firm internationalization decision. Board internationalization and diversity impact the internationalization decision of the firms. TMT internationalization is positively related to the accounting quality of the MNCs. High competition in the international context mitigates the agency cost incurred by reducing the CEO's opportunistic actions and the CEO pay structure is also used to mitigate the agency cost in MNCs. The ownership structure of the MNCs has a strong impact on MNCs strategic actions. Ownership by institutional owners is positively related to firm internationalization due to their active monitoring and international experience. Foreign corporate and institutional ownership was also found to be positively associated with firm internationalization. State ownership has an interesting set of two agency conflicts and has scope for empirical examination.

Further section discusses the article's selection and review strategy. Descriptive analysis of the articles provides information regarding the year-wise, context-wise, journal wise and methodology-wise description of the reviewed articles. Further, the author synthesizes the finding from the literature review and provides an integrated discussion. The final section of the paper discusses the research gaps and future research agenda.

2. Literature review strategy and sample selection

2.1 Review method

This study uses a systematic literature review to integrate the existing literature on agency theory advancement in the context of international business. The systematic method of the literature review was proposed by Tranfield et al. [9] in medical science literature, to overcome the criticism of the traditional literature review. A traditional literature review involves the subjectivity and bias of the researcher. The main objective of the systematic literature review is to identify research key contributions in a field and descriptively present and discuss them.

There are two important steps in the systematic literature review:

- Define the inclusion criterion of the primary studies
- Identify data sources and selection of studies

2.1.1 The inclusion criteria

This study uses the following criteria to include review articles:

- The study should use agency theory to explain the internationalization phenomenon
- This study only includes peer-review journal articles to ensure the quality of literature
- This study includes articles published in "B" or above category journals according to ABDC journal ranking. This ensures the quality publications toward the theoretical advancement of the phenomenon.

2.1.2 Study selection and data source

This study uses Business Source Ultimate of the EBSCO database to find the relevant articles. The focus of the study was on top ranked international business journals. EBSCO includes all the top ranked journals in the field of international business which includes top international business journals indexed in Web of Science or Scopus databases. The author uses a combination of the keywords: agency and internationalization to find the relevant articles. The search using these keywords in title, abstract, and author keyword in the database yielded a total of 132 articles. Further, the author removes duplicate and below B category journal articles (as per ABDC ranking) and finds 59 articles for further use in the study. The author read the abstract and the introduction of these 59 articles whenever required to find relevant studies. Finally, the author finds 24 relevant articles that meet the objective of the study. **Table 1** lists all the review studies with journal name, the theory used, country or context, method (qualitative/ quantitative), and analytical techniques.

3. Findings and discussion

3.1 Descriptive analysis

This section discusses various descriptive characteristics of the review articles. There is an increasing trend of publication of studies using agency theory to study MNCs. **Figure 1** shows an increasing trend of using agency theory in the context of firm internationalization after 2010. **Figure 2** shows that review studies are published in various management journals. The highest number of publications from the sample studies are from the International Business Review and Journal of Business Research. Most of the sample studies have integrated agency theory with the resource-based view, resource dependency theory, and institutional theory (see **Table 2**). Firm internationalization is a complex process and requires more than one theory to explain the underlying phenomenon. Most of the articles are based on a single institutional or country context (see **Figure 3**). Most of the articles are empirical and primarily use a diverse set of quantitative techniques (see **Table 3**).

3.2 Corporate governance and agency theory

As per the agency perspective, the divergence of interest between the principal and agent causes opportunistic behavior by agents to maximize their utility and reduces the shareholders' value [34]. Firms use several governance mechanisms to mitigate agency costs such as monitoring by the board of directors [35], and high ownership by outsiders [36]. There exist internal as well as external mechanisms to control the agency problem [25]. Internal governance mechanism is such as CEO compensation alignment with the shareholders' value maximization [37]. The external mechanism is market control such as the threat of takeover, and competition in the labor and product market [38]. Further, this study divides the literature into various themes.

3.2.1 Board of Directors (BOD)

BOD has the roles of managing the top management's hiring to firing, providing information and network resources, and assisting top management to decide

Author	Publication Title	Theory	Context	Quantitative/ Qualitative	Analytical Method
Chen et al. [10]	International Business Review	Agency Theory, RDP	Taiwan	Quantitative	Panel Fixed Effect
Toledo et al. [11]	Journal of Business Research	Agency Theory, RBV	Mexico	Quantitative	Partial correlation
LiPuma [12]	Journal of Business Research	Agency Theory	USA	Quantitative	OLS
Singla et al. [13]	Journal of Business Research	Agency Theory, RBV	India	Quantitative	GLS Random Effect
Mersland et al. [14]	International Business Review	Agency Theory, RBV	73 developing countries	Quantitative	SUR
Dauth et al. [15]	International Business Review	Agency Theory, UEP, Human capital theory	Germany	Quantitative	Pooled OLS
Elosge et al. [16]	International Business Review	Agency Theory, IBV, and UEP	Germany	Quantitative	3SLS-GLS
Hooghiemstra et al. [17]	International Business Review	Agency Theory	Denmark, Finland, Norway, and Sweden	Quantitative	OLS
Doherty and Alexander [18]	European Journal of Marketing	Agency Theory	UK	Qualitative	Case Study
Saeed et al. [19]	Cross Cultural & Strategic Management	Agency Theory, RDP	China and India	Quantitative	Tobit
Zhou et al. [20]	Management Decision	Agency Theory, IBV	China	Quantitative	Logit
Sanders and Carpenter [21]	The Academy of Management Journal	Agency Theory, Information-processing theory	USA	Quantitative	OLS, Logit, Poisson
Zahra [22]	Corporate Governance: An International Review	Agency Theory		Conceptual	
V. Z. Chen [23]	Corporate Governance: An International Review	Agency Theory, RDP	USA	Quantitative	Probit
Cuervo-Cazurra et al. [24]	Journal of International Business Studies	Agency Theory		Conceptual	
Filatotchev and Wright [25]	Journal of Management Studies	Agency Theory, Internationalization theory		Review	

Author	Publication Title	Theory	Context	Quantitative/ Qualitative	Analytical Method
Tihanyi et al. [26]	Academy of Management Journal	Agency Theory, FDI theory	USA	Quantitative	Hierarchical linear
Chang et al. [27]	European Financial Management	Agency Theory	USA	Quantitative	OLS, Poisson, Negative Binomial
Gaur and Delios [28]	Management International Review	Agency Theory, IBV	India	Quantitative	GLS Random Effect
Ray et al. [29]	Global Strategy Journal	Agency Theory, SEW	India	Quantitative	GLS Random Effect
Benito et al. [30]	Journal of Management Studies	Agency Theory, RBV, and IBV	Norway	Quantitative	GLS Random Effect
Shi et al. [31]	Journal of International Business Studies	Agency Theory, IBV, and Bonding theory	USA	Quantitative	Probit
Tsao and Chen [32]	Asia Pacific Journal of Management	Agency Theory	Taiwan	Quantitative	GLS Random Effect
Tsao and Lien [33]	Management International Review	Agency Theory	Taiwan	Quantitative	GLS Random Effect

Note: RDP (resource dependence perspective), RBV (resource-based view), IBV (institution-based view), UEP (upper echelon perspective), FDI (foreign direct investment), SEW (socioemotional wealth), GLE (generalized least square), OLD (ordinary least square), SUR (seemingly unrelated regression), 3SLS (three stage least square).

Table 1.
Review articles description.

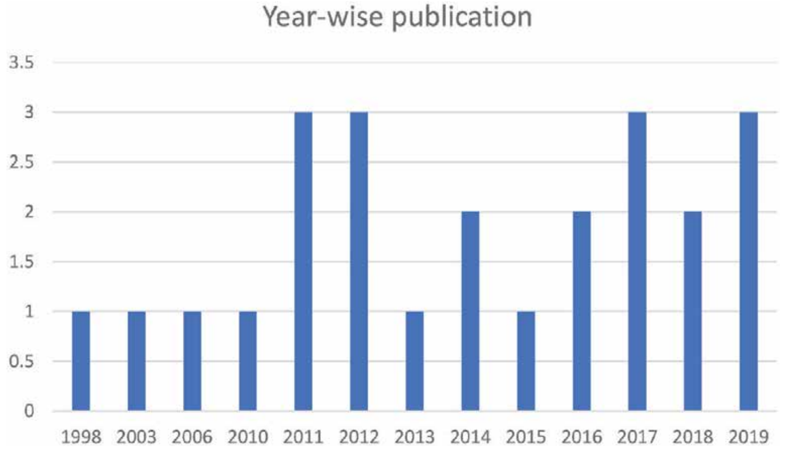

Figure 1.
Year-wise publication trend in sample studies.

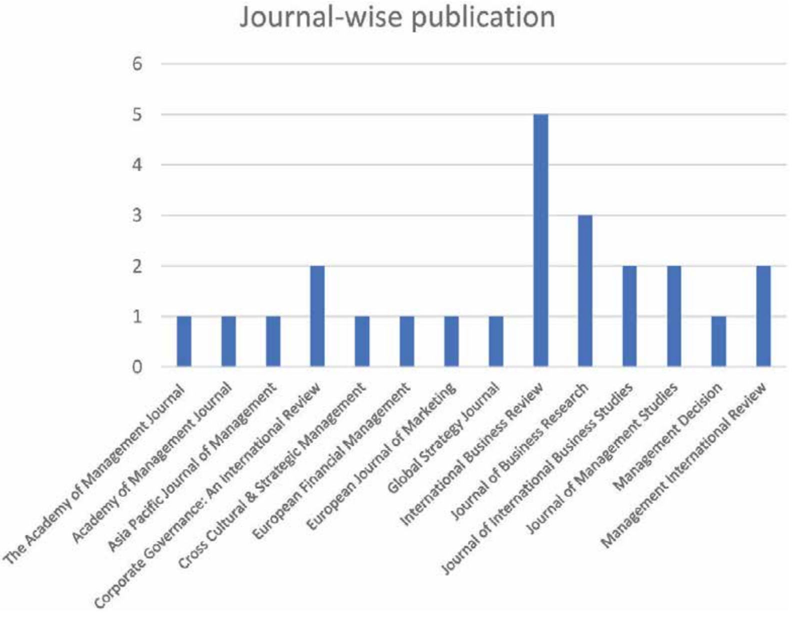

Figure 2.
Journal-wise publication trend in sample studies.

the firm strategy [17]. Various studies have found the link between the board composition and characteristics with firm internationalization decisions such as diversification, innovation, and acquisition [25]. Hooghiemstra et al. [17] studied the impact of board internationalization on the monitoring quality of the board. They proposed that the internationalization of the board make communication difficulties due to language and culture difference. This impacts the perception of the individual director toward earning management. Board internationalization cause difficulties in the understanding of accounting laws of the host nation and reduce the quality of monitoring. Foreign directors are found to be less influenced by management. The lack of country-specific accounting knowledge and a language barrier in the board meeting causes less effective monitoring which causes high earning management.

Theory Used	No of Articles
Agency theory	8
Agency theory, RBV	3
Agency theory, RDP	3
Agency theory, SEW	1
Agency theory, Internalization theory	1
Agency theory, FDI theory	1
Agency theory, Information-processing theory	1
Agency theory, IBV	1
Agency theory, IBV	1
Agency theory, IBV, and Bonding theory	1
Agency theory, IBV, and UEP	1
Agency theory, RBV, and IBV	1
Agency theory, UEP, Human capital theory	1
Grand Total	24

Table 2.
Theory used in the sample studies.

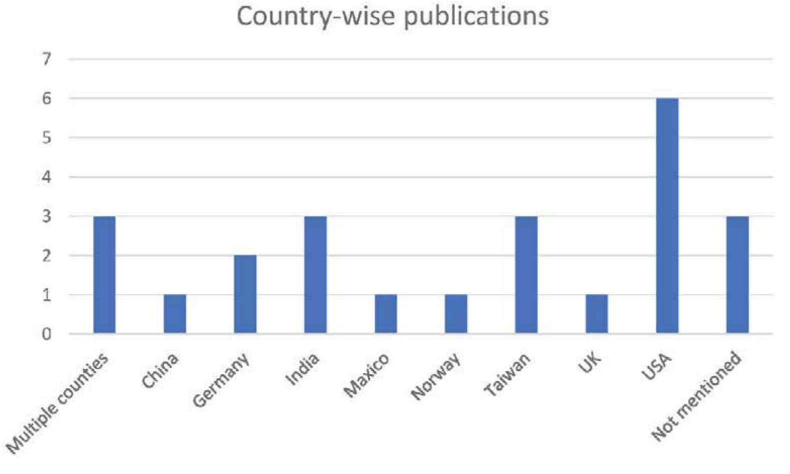

Figure 3.
Context-wise publication trend in sample studies.

Board diversity is also an emerging issue in the governance literature. Saeed et al. [19] studied the impact of ownership on women's presence on the board in the emerging economies context of India and China. They found that women's presence on the board is negatively related to the family and state ownership in the firm. Firm internationalization has a positive impact on the independence of the female BOD. As per the resource dependence theory [39], the presence of female directors motivates the female employee in the firm and increases the legitimacy of the firm in the international context. The diverse board provides a pool of skills and knowledge to make a better decision [19]. In the emerging economies context, board diversity has different implications as compared to developed economies. Emerging economies have weak legal protection, less defined property rights, and

Research Method	No of Articles
Qualitative	1
Quantitative	20
Conceptual and Review	3
Analytical Technique	**No of Articles**
3SLS-GLS Regression	1
Case Study	1
GLS Random Effect Regression	4
Hierarchical Regression	1
Logit Regression	1
OLS Regression	4
Panel Fixed Effect	1
Panel Random Effect	2
Partial correlation	1
pooled OLS	1
Probit Regression	2
SUR Regression	1
Tobit Regression	1

Table 3.
Research method used in the sample studies.

the infrastructure is also not well developed. State-owned firms have high government influence due to top management appointed by the state. The politics in the male-dominated arena of the emerging economies hurt the selection of the female members on the board [19].

The independence of the directors from the top management team reduces the cost of an agency. The independent director has the human and social skills to influence the firm internationalization decisions [26]. Chen et al. [10] examine a sample of US manufacturing firms and find that directors' independence provides appropriate resources and information's in multinational firms. Integrating agency theory with the resource dependence view, they argue that independent directors possess international experience in the specific industries with the interlocking ties which increase firm willingness to internationalize.

3.2.2 Top management team (TMT)

The agency theory is used to explain the divergence of interest between the top management team (as agent) and shareholders (as principals). Agency theory literature is well developed to explain the actions and behavior of the TMT and the opportunistic decision by the managers to maximize their benefits [16]. Internationalization increases competition in the industry from the domestic as well as foreign multinational firms. This increased competition increases the TMT focus on the decision to improve the firm value and reduce the agency conflict [27].

CEO (chief executive officer) pay structure is used to mitigate the agency problem by aligning the owner-managers interest. In the international business context, a contingent pay structure of the CEO can increase her/his effort in managing the complexity and get the rewards [25]. Higher and Long term based CEO pay can reduce the agency cost and increase information processing in the multinational context [21]. Elosge et al. [16] examined the role of CEO succession on the German firm's internationalization. They combine agency theory, institutional theory and upper echelons approach to identify CEO succession influence on internationalization decisions. They find that CEO succession leads to higher firm internationalization. The new CEO tries to peruse the legitimacy and try to maximize the personal benefit by international diversification. This positive impact is reduced after a threshold of the CEO changes due to the disturbance caused in the firm's management. Finally, they found an inverted-U-shaped relationship between CEO succession and internationalization.

Dauth et al. [15] integrated upper echelons perspective, agency theory, and human capital theory to examine the impact of TMT internationalization on accounting quality. They found that TMT internationalization improves the accounting quality and the effect size is small in the case of CFO (chief financial officer) internationalization compare to CEO. TMT internationalization help in coping with the complex accounting standards and reduce the incentive to exert earning discretion.

3.3 Ownership and agency

Existing studies show that the ownership structure of the firms influences the firm's decision-making and behavior of risk-taking [40]. Emerging economies firms also face the principal-principal agency issue [41, 42]. Heterogeneity of the strategic preferences among the institutional investors is established in the existing studies [26, 40, 43]. This section reviews the studies using agency theory to establish the link between the ownership structure and internationalization decisions.

3.3.1 Domestic ownership

Domestic ownership includes ownership by domestic individuals, corporates, and institutions. Singla et al. [13] examined the role of domestic corporate ownership on internationalization. This corporate invest in the other firms and form a cross-holding and pyramidal ownership structure. This improves the relative competitiveness of the firm in the home market by reducing the supply and demand uncertainty and providing access to resources. Tihanyi et al. [26] study the impact of institutional ownership on the US firm's international diversification. They find that institutional investors (professional investment funds and pension funds) have a long-term interest in the firm and they effectively monitor the manager's action due to their large ownership. The long-time horizon and risk-taking behavior of the institutional investors increase the focal firm's international diversification.

Zhou et al. [20] integrated agency theory with the institution-based view to understanding the relationship between institutional ownership and cross-border acquisition success in Chinese firms. They find that institutional ownership improves firms' governance quality and acquisition success. They are more informed to evaluate the cross-border acquisitions decisions by the firms and their large shareholding incentives to monitors the other shareholders and managers active in the acquiring firms.

3.3.2 Foreign ownership

It includes ownership by foreign corporations and institutional investors. Ray et al. [29] argued that the high foreign institutional ownership reduces the fear of complex unknown practices in the international market by improving understanding of the foreign market based on their international experience. They found that foreign corporate and institutional ownership is positively associated with firm internationalization. Foreign corporate investors are not only motivated by financial goals but also want to enter into the new market and develop organizational capabilities [13]. In the emerging market multinational firms the foreign institutional help in building credibility and reputation in the foreign market. Institutional investors are active monitors and sent a positive signal of good governance in the focal firms. In sum, institutional ownership is positively associated with firm internationalization [13]. Foreign investors are also associated with the high commitment entry modes selection by the firms [25]. Mersland et al. [14] examined the influence of microbanks internationalization on their social and financial performance. Internationalization of the microbanks helps in getting international BOD, international debt access, international network access which improves their social performance.

3.3.3 Business group ownership

Business group ownership is very dominant in the emerging economies context such as India. Gaur and Delios [28] integrated agency theory with institutional theory to examine the impact of international diversification on firm performance. They examined a sample of Indian multinationals and found that high domestic and foreign ownership is positively associated with the firm international diversification. They found a negative impact on firms' international diversification of financial performance. Business group affiliation positively moderated the relation between the firm international diversification and financial performance. The group affiliated firms have a less negative impact of international diversification of the firm's performance due to the resource availability support in the affiliated firms.

3.3.4 Family ownership

There are various definitions of family firms in the literature. Ray et al. [29] defined family firms as "firms given founding business have a shareholding of 20% or more with a director position by founding family members and at least a member from the founding firm is managing director/CEO/board chairperson". Tsao and Lien [33] defined family firms as "firms in which the founders or their family members hold the key management positions, sit on the board, or are the block-holders of the firm". Singla et al. [13] examined the impact of family ownership on firms' internationalization. Based on the principal-principal (PP) agency theory and the resource-based view they argue that the various shareholders have different preferences and favor firm internationalization differently. They find that a lower level of family ownership is positively associated with firms' internationalization while a higher level does not favor internationalization.

Ray et al. [29] investigated the influence of family management and ownership on firm internationalization decisions in emerging economies (India). They integrated the "socioemotional wealth perspective and agency theory" to examine the relationship. They adopted the willingness and ability perspective [44] to establish the relationship. Where the willingness is related to "disposition to act" and ability is related to "discretion to act". The family firms have less willingness to take the risk and lower internationalization. The risk aversion of the family firms is more strong with the control of the increase as they have ownership as well as management position in the affiliated firms. The family members can influence the manager's actions. The negative impact of family ownership on internationalization is reduced with higher foreign institutional ownership.

Tsao and Lien [33] examined the moderating role of family ownership on firm internationalization and innovation/performance. They took a sample of Taiwan's publicly listed firms and find that family firm's experience positively moderate the relationship between internationalization and innovation/performance. The presence of the family management mitigates the agency due to high family firm control over firm strategic actions. The family firm has principal-principal agency conflict with the minority shareholders.

3.3.5 State ownership

In the case of state-owned firms, the two-agency relationship exists [24]. Cuervo-Cazurra et al. [24] listed triple agency conflict in state-owned enterprises internationalization as follow:

- First, these firms are having the owners as the citizen of the nation who appoints the politicians as the agent. The firms have certain social and economic goals. In these settings, the citizens as the principals do not have contractual control mechanism overs the politician as the agent. The politician once selected are replaced after the next election only. The conflict arises when politician maximize own utility to remain in power and citizens want a better return for their investment

- The second agency issue is between the politician and the appointed firm's managers. Agency conflict occurs when politician want to achieve their personal goals while the managers maximize their benefits [45]

- A third agency relationship exists between the managers of the state-owned enterprises and the managers of their foreign subsidiary [46]

All three principals have different objectives:

- citizens have the objective of the country development

- Politician wants to remain in the power

- Foreign subsidiary managers want to advance their carrier

Cuervo-Cazurra et al. [24] proposed that the state-owned multinationals firms invest and enter into the countries where their project value is less than the private multinational with less agency cost. Benito et al. [30] have examined the impact of state ownership on the headquarter reallocation by the multinationals outside the home market. Integrating agency theory, resource-based view, and institutional perspectives, they argued that location decisions about the multinational headquarters are based on the efficiency and the legitimacy factors. They find that state ownership along with concentrated ownership is negatively related to the headquarters location outside the home country. They proposed that the location of the headquarters outside the home country negatively impacts the image of the home country and causes a loss in employment and R&D.

3.4 Born global and agency issues

The early-stage internationalization of the new ventures provides them growth and profitability opportunity. The governance challenges are serious in the born global firms [22]. Zahra [22] examined the impact of public and corporate governance on the global entrepreneurial firms as the early internationalizes. These governance systems decide the success and survival of the born global in the international market. The born global firm faces issues regarding the management of intellectual property rights and free-riding by the established players. Public and corporate governance resolve cross-border conflicts. Corporate governance effectively monitors the manager's actions as well as supports the decision-making in the complex global context.

LiPuma [12] examined the performance of the IPO performance by born global. Using a sample of the technology-based international new ventures he argued that the agency risk is higher due to the difficult monitoring and the communication in the born global. Born global have high liabilities of the foreignness due to less experience in the international context. He found that the timing of IPO is later in born global firms in comparison to the domestic firms.

4. Conclusion

This study consolidates the state of academic research on using agency theory to explain the various phenomena's in the MNCs context. Based on the systematic review of the literature, author finds that agency theory is used to examine the degree of internationalization, international diversification, born global internationalization, and governance issues in various modes of foreign entries.

4.1 Future research directions

A large number of opportunities exist in future research to examine various aspects of agency in the different contexts of MNCs. First, the impact of business group affiliation on the MNCs performance is inconclusive [28]. These studies suggest heterogeneity among the business group in different institutional contexts and require separate attention. Second, several studies emphasized the board characteristics impact on the agency issues and firm internationalization. But, the black box of what happens inside the board room is not well understood and requires attention to understand it using methods such as video recording of board room activities [17]. Third, future research needs to identify the heterogeneity among the family firms based on the composition of the family members team, knowledge resource and networks difference with family members, dynamics in the family, and intergenerational issues in the context of the emerging economies family firms. Forth, current studies have considered principal-principal conflict based on the financial goals of the various owners. Future studies need to consider the multidimensional nature of the principal-principal conflict with multiple sources of conflict other than the financial returns interest. Fifth, future studies need to go beyond the board composition and structure to resolve agency issues and need to look into the influence of the director's social and human capital on firm internationalization decisions [10]. Sixth, agency issue needs to re-examine in the born global firms in various institutional contexts. Lastly, state ownership proposes an interesting agency issue with two different principal-agent relationships and has different dynamics in comparison to the other owners.

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Chapter 2

A Review on Corporate Social Responsibility (CSR) Constructs and Theoretical Debate in Pakistan

Zaheer Alam and Kashif Rashid

Abstract

The purpose of this research paper is to review the complete CSR literature laying emphasis on CSR constructs and the theoretical perspectives in Pakistan. Collation of existing empirical and exploratory research has been used to make arguments about current status of academic CSR research. A total of sixty-five published articles on CSR from 2000 to 2021 have been reviewed. A thorough overview of CSR constructs highlighted that overall, the CSR constructs are not properly developed, and theoretical foundations are lacking. Corporate donations and philanthropy captured as CSR construct are still familiar among the researchers. It has been observed that the most recent literature is approaching towards maturity. The findings suggest that the lack of adequate explanation of theoretical foundations mislead the interpretation of results. There is partial support in the literature that CSR pays to the firms, as is depicted by the positive relationship between CSR and the facets investigated by the researchers but thorough emphasis is required on CSR measurement. The research can serve as basis for the beginning of an extensive exploration of CSR through the lens of theoretical perspectives and the strong theoretical foundations can result in a mature CSR construct and major contribution in the body of literature.

Keywords: corporate social responsibility, CSR, stakeholder's theory, legitimacy theory, Pakistan

1. Introduction

The discussion on Corporate Social Responsibility (hereafter CSR) got its root from Howard R. Bowen's 1953 first ever definitive book that initiated widespread discussion on the topic [1]. Bowen's revolutionary publication entitled "Social Responsibilities of the Businessman" provided welfare role of the business for the benefits of the society (Bowen, 1953 cited in [2]). The popularity of CSR is credited to landmark work of Bowen [3, 4]. The society bound role of business has been a matter under discussion since the start of second half of the 20th century [5].

The debate on business with its welfare role, attracted critiques. There is one and only responsibility of the business—to use its resources and engage in activities designed to increase profits [6]. The contrary arguments triggered a greater debate and challenged the researchers to explore the CSR and its potential effects on the

Authors	Period of Data	Sample	CSR Construct	Measure of Firm Performance	Brief Notes
Ray [19]	1991 1994	The Pakistan Integrated Household Survey was carried out in 1991 when PIHS teams visited 4800 households. The Peru Living Standards Survey covered 3623 households.	None: Child employment assessed through Pakistan Integrated Household Survey and Peru Living Standards Survey.	None	Peruvian working children combine employment with schooling. Pakistani working children do not combine employment with schooling. Increase in adult female education results in reduction of child labor. The school enrolment rates of Peruvian children are considerably higher and show more even gender balance than those in Pakistan.
Thomsen [21]	2004	Tannery Industry based in district Kasur Punjab province. The city of Kasur has the largest concentration of tanneries in Pakistan.	Involuntary and voluntary codes of conduct adapted by the firms after the hazards that caused harm to community.	None (An exploratory study)	A case study on the livelihood of the local residents who got suffered due to a specific industry's highly toxic polluted water. Firms found to have changed their behavior after intervention. Association, resulting in the export-oriented growth strategies of tanneries being prioritized at the expense of the well-being of local communities in the area.
Ahmad [22]	2006	The study uses semi-structured, questionnaire-based interviews of CEOs/directors of 16 Pakistani companies to explore issues related to social responsibility.	Percentage ratings of the managerial perceptions about stakeholder's welfare were found.	None (An exploratory study)	The study concludes that there is a considerable divergence in CSR practices in the country but most activities are focused on employee welfare and corporate philanthropy. Western-style CSR is in a nascent but developing stage in Pakistan.
Makki & Lodhi [23]	2002–2006	This paper explores the determinants of corporate donations based on LSE-25 index companies over five year period 2002–2006.	Corporate philanthropy assessed through corporate donations and charitable contributions. Multiple regression techniques have been used for gauging the determinants of corporate philanthropy after collecting data from audited financial reports of companies.	None (An exploratory study)	Earnings before tax, size and advertising intensity proved as determinants of corporate philanthropy. Results show that more than 90% of LSE-25 index companies contribute to health, education and social activities and total philanthropic contributions are increasing over the 5 years period.

DOI: http://dx.doi.org/10.5772/intechopen.100195

Authors	Period of Data	Sample	CSR Construct	Measure of Firm Performance	Brief Notes
Ali et al. [24]	2010	Professionals addressed through questionnaire. A total of 371 usable survey questionnaires were returned leaving a response rate of 63%.	CSR actions of the firms obtained on a scale mentioning different stakeholders. The study used exploratory approach.	ROI ROA Sales growth Profit growth	The study found a highly significant positive relationship between CSR and employees' organizational commitment, CSR and organizational performance, and organizational commitment and organizational performance.
Nazir et al. [25]	2010	Two companies from the tobacco industry of Pakistan are selected as a case study to analyze the corporate social disclosure including Pakistan Tobacco Company (PTC) and Lakson Tobacco company.	CSR activities of two companies were analyzed. To analyze the corporate social disclosure annual reports were used.	None (An exploratory study)	Companies seem trying to get public confidence through their CSR activities. After the analyses, it can be concluded that the behavior of firm is heavily dependent on the social work and community involvement in the society in which it is operating.
Ali [26]	2011	A total of 400 questionnaires were distributed to the respondents. The respondents in this study were university students from both the genders.	CSR activities of firms mentioned in the questionnaires.	None (An exploratory study)	The study concluded that corporate social responsibility has a significantly positive influence on corporate reputation and consumer purchase intentions.
Ehsan et al. [27]	2006–2009	The panel estimation is done from the year 2006 to 2009. Only those firms were selected in this study which remained listed during the period of 2006 to 2009 and disclosed the data of CSR in their financial reports. After meeting this criteria 62 firms with 248 observations were selected.	Donations and contribution towards employee welfare fund were used for the measurement of CSR and study used constructive measure as a proxy for CSR.	ROA ROE EPS Sales growth	Ehsan, Kaleem and Jabeen [27] suggested a two way relationship between firm's CSR activities and its financial performance. They worked on panel data and a random effect model. Their results suggested a positive relationship between these two variables.
Aga et al. [28]	2012	10 pharmaceutical companies from Peshawar Pakistan	40 questionnaires were sent to the managerial level employees to assess the CSR.	Perceived growth in profits	Study found a positive correlation between CSR and firm's financial performance. Regression results showed a significant relationship.

Authors	Period of Data	Sample	CSR Construct	Measure of Firm Performance	Brief Notes
Kamran et al. [29]	2012	A case study of CSR at Proctor & Gamble (P&G) Pakistan. The authors attempted data testing; in this case a questionnaire survey had been used.	CSR was assessed through questionnaires and interviews by mentioning CSR activities.	None (An exploratory study)	This research concludes that CSR activities of P & G positively affect the consumer purchase process that leads to favorable purchase decisions.
Iqbal et al. [30]	2010–2011	In this research study, 156 listed companies are considered from textile sector, chemical sector, cement sector and tobacco sector, listed at Karachi Stock Exchange.	The variables employed by Waheed [18] in this computation were: Corporate governance (CG), environmental compliance (EC), social compliance (SC), business ethics (BE), community investment (CI), stakeholder dialog (SD) and supply chain security (SS).	ROA ROE Tobin's Q	The results of this study concluded that corporate social responsibility (CSR) has no effect on corporate financial performance (CFP). It is obvious from the results that CSR has a negative effect on the market value of the share but have no significant relationship with D/E behavior of the firm. Size and debt equity structure were used as control variables.
Tausif [31]	2012	To compare the CSR practices of semiconductor manufacturer 'Intel Pakistan' and cigarettes manufacturer 'Pakistan Tobacco Company'.	Level of CSR practices by two companies assessed through annual reports and websites.	None (An exploratory study)	CSR concept prevails in two companies however there are differences in CSR practices of these companies. Company strategy influences CSR concept. These companies are using different programs for CSR implementation such as environmental safety programs, health care programs, and water cleaning system.
Awan et al. [32]	2012	By archival data from different companies in Pakistan with a sample of 110 to 120 companies.	CSR was assessed through an index. The range of the index varied from 0 to 100. Zero shows a complete absence of CSR. Value nearer to 100 shows a higher social responsibility.	None (An exploratory study)	Organization social performance score was found. Organization social performance score gives an index of 56.33%, showing that the companies have middle levels of CSR. The donations contribute more towards CSR index.
Naqvi et al. [33]	2012	The primary data was collected with the help of both through personally administered questionnaires and mails from 180 respondents during March 2012 so it was a cross sectional study.	CSR was assessed through mentioning philanthropy of six companies of fast moving consumer goods (FMCG) sector in the questionnaire.	None	The study found a positive correlation between CSR and the variables like brand image, brand loyalty, perceived quality and brand satisfaction. Among all of the four dimensions of brand image, corporate social responsibility was highly positively related to brand satisfaction.

Authors	Period of Data	Sample	CSR Construct	Measure of Firm Performance	Brief Notes
Javed et al. [34]	2008–2012	The study analyzed the data of 30 companies listed at KSE-30 index.	This research used Carroll's four part CSR model that is conceptual, and robust parameter of measuring corporate social performance. This model categorized corporate social responsibility into four types namely: Economic responsibility, legal responsibility, ethical responsibility, and discretionary responsibility.	ROA	First two components (economic responsibility and legal responsibility) of Carroll's CSR pyramid have been found with positive relationship and last two components (ethical responsibility and discretionary responsibility have been found having a negative relationship with firm financial performance.
Khan et al. [35]	2013	Cement industry of Pakistan was selected as the unit of analyses. The cement industry comprises of 29 cement manufacturing units out of which10 cement manufacturing firms were taken as sample by obtaining 67 usable questionnaires.	Data from local community, relevant consumers, and environmental protection agencies was also collected for the balanced assessment of the issue.	None	The study noted that there was a positive relationship between CSR activities such as environment oriented responsibilities, community oriented responsibilities, customer oriented responsibilities and legal responsibilities with the corporate reputation of the business organizations.
Khan & Majid [36]	2013	Cluster sampling technique was used in which a sample of 5 units was randomly selected from both zones: Northern zone and Southern zone. In this research de-jure and de-facto sample was 10 i-e n = 10.	The dimensions of CSR for the current study are: Environment oriented responsibilities, customers oriented responsibilities, community oriented responsibilities and legal responsibilities.	Perceived profitability and market share.	The study noted that there was a positive relationship between CSR activities such as environment oriented responsibilities, community oriented responsibilities, customer oriented responsibilities and legal responsibilities with the profitability of the business organizations. The study was based on stakeholder theory.
Sharif & Rashid [15]	2005–2010	The source of data for this study was the annual reports of 22 commercial banks listed at KSE 100 index.	The research instrument of this study contains seven major categories of CSR reporting namely contribution to health sector, contribution to education sector, activities of natural disaster, other donations, and activities for employees, environmental issues, and product and services.	ROA	A positive relationship was found between the percentage of non-executive directors on the board who act as stewards and CSR reporting information (H1), percentage of foreign nationals on the board and CSR reporting (H2), firm size and CSR reporting (H3), profitability and CSR reporting information (H4), and between gearing ratio and CSR reporting information by banks (H5). The study is based on legitimacy theory.

Authors	Period of Data	Sample	CSR Construct	Measure of Firm Performance	Brief Notes
Murtaza et al. [37]	1990–2013	The population of this study is Pakistan and the sector which is chosen to conduct the research is food sector.	CSR activities of firms are analyzed through annual reports. No explicit measure of CSR is mentioned.	ROA ROE EPS	The result shows that there is a positive relationship between CSR and CFP.
Mujahid & Abdullah [38]	2011	10 firms from different sectors that are considered as corporate social responsibility firms and 10 firms that are non-corporate socially responsible firms.	CSR of the firms is assessed through annual reports of firms. Firm's volume of social disclosure is matched with financial performance.	ROA ROE EPS	Results show that there is a significant positive impact of CSR on firm's financial performance and shareholders wealth. Comparison has been made by analysing the accounting measures like ROE, ROA, EPS and price of the stock of particular CSR firms and comparing these results with the non-CSR firms.
Malik & Nadeem [39]	2008–2012	Sample size for this study is eight banks listed at Karachi Stock Exchange.	CSR is measured through annual reports of the selected banks. Philanthropy towards disasters, education, health and social welfare is used as measure of CSR.	ROA ROE EPS NP	The findings of this study show that there is a positive but insignificant relationship between corporate social responsibility and all the measures of financial performance.
Siddiq & Javed [40]	2014	The six companies that have been focused are listed at Karachi Stock Exchange.	Primary data is collected from surveys and questionnaires and perceived CSR is obtained.	ROA Turnover	The findings depict a highly positive correlation between ROA and turnover. The standard deviation for turnover was also found to be abnormal. Regression results are not significant and appear to be rejecting the proposed model. CSR does not have an impact on the financial performance of the firms.
Khan et al. [41]	2014	300 banking customers from Rawalpindi and Islamabad. Data collected for Habib Bank and United Bank Limited.	CSR assessed through selected bank's customer centric initiatives, environmental and philanthropic initiatives.	None	CSR initiatives of banks were found to have a positive influence on the attitude and behavior of banking customers.
Memon et al. [42]	2014	Sent questionnaires to the heads of 67 business and management schools to assess CSR as a business and management discipline.	CSR assessed as its usefulness in business and management discipline.	None	The study concluded that CSR is flourishing as an academic discipline in Pakistan. Universities were identified as the most important actors in strengthening CSR culture and values in the country, either alone or in alliance with corporations and the government.

Authors	Period of Data	Sample	CSR Construct	Measure of Firm Performance	Brief Notes
Awan & Akhtar [43]	2014	Primary data consisting of 200 enquiries through questionnaires.	CSR level was assessed through annual reports and questionnaire mentioning workplace policies, environmental policies, marketplace policies and community policies.	None (An exploratory study	The relationship between CSR and human rights, environment, labor standard, corporate governance and organization's interest in southern Punjab in Pakistan are positive and significant.
Iqbal et al. [44]	2005–2011	Only a single bank (United Bank Limited) was studied.	CSR activity was assessed through donations of the bank. When the firm spends some money on the society (donation), the society gets benefit from it.	NPM EPS	CSR activities through donations were found to have a positive effect on financial performance of the bank. There is a positive relationship between the firm's disclosure of corporate social responsibility and the firm's performance in terms of net profit margin and earnings per share.
Malik et al. [45]	2015	The primary data is collected from professionals working in different banks of Multan City only.	Employee's awareness of CSR gauged through questionnaire.	Perceived organizational performance	Results show that organizational performance has a positive relationship with CSR activities when organizational culture moderates this relationship. Organizational performance is measured by employee satisfaction and commitment.
Rehman et al. [46]	2006–2012	15 firms related to cement industry listed at Karachi Stock Exchange.	CSR was assessed through philanthropic donations and firm's contribution towards worker fund.	ROA ROE GP, EPS	The study finds a positive relationship between CSR and firm financial performance. Size, age, leverage and risk are used as control variables.
Saleem & Gopinath [47]	2015	297 usable questionnaires received from two public sector universities.	Customer rated and environmental rated CSR were obtained from respondents.	None (An exploratory study)	Brand loyalty and customers willingness to pay premium prices was obtained. CSR practices were found to be significantly related to customer behavior.
Kiran et al. [48]	2006–2013	The sample data includes 10 companies of Oil & Gas sector, listed at Karachi Stock Exchange for the period 2006–13.	CSR was measured by company's spending on CSR depicted in annual reports of the companies.	NPM	The results suggested a positive correlation between CSR spending and profitability of the firm. On the other hand, negative correlation was found between CSR and total assets. The relationship between CSR and financial performance is reported as insignificant.

Authors	Period of Data	Sample	CSR Construct	Measure of Firm Performance	Brief Notes
Arshad et al. [49]	2009–2013	The study consists of 125 listed companies at Karachi Stock Exchange taken from 25 different sectors.	CSR is measured as sum of the philanthropic donation and firm's cost on environmental compliance from contents of annual reports.	Tobin's Q ROA	The results revealed that there was no impact of CSR on the financial performance in the short-term scenario at 5 per cent confidence level but found a positive impact at 10 per cent confidence level. Leverage, size, sales growth and age of the firm were used as control variables.
Qazi et al. [50]	2015	Eight managers, directors/advisors from four companies were interviewed.	CSR activities were obtained from financial reports and manager's interviews.	Managers perceived financial performance.	The study reported a strong positive relationship between CSR and financial performance of companies. Managerial perceptions were found to be in the favor of CSR.
Majeed et al. [51]	2007–2011	100 companies were listed at Karachi Stock Exchange. This research extends the previous studies on the development of CSR index in Pakistan by using the KSE 100 index.	CSR was assessed through contents of annual reports across seven categories like health, education, disasters, donations, employees, environment and product.	None	The study reported a positive and significant impact of board size, institutional ownership, ownership concentration and firm size on the degree of disclosure. Study was based on legitimacy and the social and political cost theories.
Arshad et al. [52]	2009–2013	The study that is conducted consists of 125 companies which are listed at the Karachi Stock Exchange in Pakistan.	CSR is measured as the summation of the donation and the environmental cost from contents of annual reports.	ROA Tobin's Q	The results obtained from this study advocated that the effect of corporate social responsibility on financial performance of companies in short term scenario is insignificant at the level of 5%, but the CSR has positive and significant impact on firm's financial performance at the level of 10%. Size, age, leverage and sales growth were used as control variables.
Awan & Nazish [53]	2009–2013	16 banks were selected for the study from Pakistan.	CSR activities of banks analyzed through annual reports. No explicit measure of CSR mentioned.	ROA ROE EPS	The study found a significant and positive relationship of corporate social responsibility with the financial performance.

Authors	Period of Data	Sample	CSR Construct	Measure of Firm Performance	Brief Notes
Butt [54]	2016	A pre-tested structured questionnaire was administered to 224 respondents.	Customers perceived CSR and awareness about CSR obtained through an interview.	None	Perceived CSR, customer awareness and trust have an influence on the purchase intentions of the customers. In Pakistan, awareness was positively associated with the purchase intention of the individual as it was in developed countries.
Mukhtar [55]	2016	170 employees of the financial institutions in Rawalpindi, Punjab.	CSR assessed as firms' environmentally sustainable practices, philanthropic practices and stakeholders' relations.	Perceived organizational performance	The study concluded a positive relationship between CSR and organizational performance.
Lone et al. [56]	2010–2014	Content analysis was applied to measure CSR disclosure from annual reports of 50 companies from eight different sectors from 2010 to 2014.	CSR assessed through contents of annual reports across seven categories like health, education, disasters, donations, employees, environment and product.	None	Multiple regression results proved that independent directors, women directors and board size positively affect the extent of CSR disclosure. Size, profitability and leverage were used as control variables.
Butt & Butt [57]	2008–2013	Sample size comprised of 70 non-financial public limited companies (PLC) listed at Karachi Stock Exchange, and analysis was based on six year data from 2008 to 2013.	CSR index developed on the basis of community involvement, environmental information, employee information, product and services information and value added information. The data on corporate social responsibility was taken from annual reports of companies.	ROA ROE	Corporate social performance is positively linked with corporate financial performance and simultaneously the financial performance is also positively associated with corporate social performance. Foremost influential factor of corporate social performance was found to be the size of firms, association between firm size and CSP was found to be positive. Mixed theories have been mentioned i-e stakeholder's theory, legitimacy theory, social contract theory and good management theory.
Khan & Tariq [58]	2010–2015	Seventeen Islamic and conventional banks from Pakistan and Bangladesh were considered as sample to analyze the financial performance.	CSR level was measured through companies' donation for necessities, health, environmental protection and social welfare.	ROA ROE EPS	The results suggested that corporate social responsibility had a positive and significant impact on financial performance of banks.

Authors	Period of Data	Sample	CSR Construct	Measure of Firm Performance	Brief Notes
Bagh et al. [59]	2006–2015	Using a sample of 30 commercial banks listed at Pakistan Stock Exchange for the period of 10 years from 2006 to 2015, selected on the basis of market capitalization.	CSR activity was assessed through company's philanthropic activities like donations towards disasters, health, education and social welfare.	ROA ROE EPS	The study had found that CSR has a positive and significant impact on financial performance of selected commercial banks of Pakistan. The philanthropic activities were found to be positively related to ROA, ROE and earnings per share.
Syed & Butt [60]	2009–2013	56 companies were listed on Karachi Stock Exchange.	CSR is assessed through content analyses of the annual reports on a check list of 35 items. 1: If i_{th} item disclosed 0:If i_{th} item not disclosed	ROE	The study concluded that positive and significant association exists between family ownership, industry type, profitability, age of firm and CSR disclosure. Negative and significant relationship exists between risk and CSR disclosure. Furthermore, older firms were found to disclose more information. The study employed legitimacy theory.
Malik & Kanwal [61]	2005–2014	The panel data of 10 years from 2005 to 2014 are obtained through content analyses of annual reports.	CSR is measured as a disclosure of contents regarding environment, community, human resources and product in annual reports of the firms under study.	ROA ROE	Growth is observed in disclosure level during the period of 10 years which is 18% in 2005, but in 2014, the disclosure of social information reached to 52%. The regression result of first hypothesis was significant which shows that CSRD affected brand equity with the value for R-squared of 97% and 93% respectively. The study employed the stakeholders theory.
Azam et al. [62]	2012-2018	65 firms listed on Pakistan Stock Exchange.	Amount of donations and firms' contribution toward the social welfare were taken as proxy for CSR.	None	Firms observing religious principles (Shariah compliance) were found to have more tendency towards the CSR. A gender-balanced board and diverse education on the board have a positive effect on CSR.
Chen et al. [63]	2018- 2019	175 and 105 respondents in one bank and one insurance company in Pakistan and Sudan, respectively.	As CSR evaluation consumers rated the statements over a Likert scale.	None	The consumers' support for CSR was positively related to consumption decisions. Muslim consumers in Pakistan and Sudan valued the involvement of companies in CSR when making consumption decisions.

Authors	Period of Data	Sample	CSR Construct	Measure of Firm Performance	Brief Notes
Hongdao et al. [64]	2019	Data collected from employees of law firms in major cities of Pakistan. 200 questionnaires were received out of 600.	A five-point Likert scale was used to measure CSR over twelve items showing CSR of the firms.	None	Findings suggested that transformational leadership improved employee's performance and supported CSR activities. Employee's perception of CSR active firms contributed to their job performance.
Khan et al. [65]	2010-2017	Data obtained for 57 firms listed on Pakistan Stock Exchange for the period 2010 to 2017.	CSR was measured as quality of CSR disclosure. Quantitative, qualitative, generic and no disclosures were given the scores of 3, 2, 1 and zero respectively over 21 CSR items.	None	Gender and national diversities in the boards had a significant influence over QCSR disclosure hence could be regarded as most valuable assets of the firms. Age diversity was found to be negatively influencing the QCSR. Education, ethnicity and tenure were also found insignificant in influencing QCSR disclosure. Study is based on resource-based view theory.
Javeed & Lefen [66]	2008-2017	133 firms from eight manufacturing sectors were selected as sample of the study. A total of 99 firms met the sampling criteria set by the authors.	CSR measured by taking societal, economic, and environmental dimensions. The social contribution value per share was calculated following the guidelines of Shanghai Stock Exchange.	ROA, ROE	Firm performance and CSR are positively related. With the moderating interaction of CEO power, the relationship between CSR and firm performance remains the same. With the moderating interaction of managerial ownership, the CSR-firm performance relationship remains positive and significant.
Waheed & Yang [67]	2018	Sample comprised 450 managers of small and medium enterprises (SMEs).	CSR measured as responsibility towards community, customers, environment, employees, suppliers and responsibility towards government regulations.	Perceived sales performance	The external CSR dimensions showed a higher and significant effect on sales performance than the internal items. Results implied that the notion of CSR should be endorsed. The study was based on the stakeholder theory.
Zulfiqar et al. [68]	2018	Top five banks that were among top 1000 banks in 2016 by their capital. 530 employees working at different positions in the banks.	CSR construct was based on company's internal CSR that is mainly centered towards the wellbeing of employees.	None	CSR activities of firms centered towards employees influenced their behavior. Employees found themselves more identified when they observed their organizations involved in CSR. Study confirmed the existence of social identity theory.

Authors	Period of Data	Sample	CSR Construct	Measure of Firm Performance	Brief Notes
Farrukh et al. [69]	2019	470 complete questionnaires were received from business professionals of industries in manufacturing, banking, electronics and oil and gas.	CSR measured as employee's perception of the concept. A structured questionnaire was distributed among employees containing firms' CSR.	None	The relationship between CSR and women was found to be stronger than CSR and men. Employee's perception of CSR and employee's engagement were positively related.
Ikram et al. [70]	2016-2017	360 SMEs were selected as sample randomly from Karachi, Lahore, and Faisalabad. 340 questionnaires were considered for analyses.	CSR was gauged by adapting 9 items containing CSR information from Masurel and Rens (2015). CSR was mainly divided into social and environmental domains.	Perceived financial performance	CSR and firm performance (financial performance, corporate reputation, and employees' commitment) was positively related. Slack resources resulting from good financial performance enhanced CSR activities. The study outlined stakeholder, legitimacy/institutional and social exchange theories. Results showed the mimetic and normative isomorphism.
Ahmed et al. [71]	2019	Data collection was done from customers of fast-food restaurants. 669 customers were approached.	Brown and Dacins' (1997) four item scale were used to measure the customer perception of CSR.	None	The study revealed that CSR does have an influence on citizenship behavior of customers. Significant relationship was found between restaurant's CSR efforts and customers' behavioral responses.
Khaskheli et al. [72]	2020	A questionnaire was administered to 518 respondents in Karachi. The respondents were employees.	CSR construct is based on employee's perception of the firms' activities towards employees, society, consumers, and the government.	None	Organizational citizenship behavior was positively influenced by employee's perceived CSR and citizenship behavior. Intrinsic job satisfaction and affective commitment had a positive association with CSR but negative with extrinsic job satisfaction.
Hamid et al. [73]	2008-2012	Pakistan Stock Exchange (PSX) 100 index firms have been selected as sample for the study.	Carroll's pyramid has been used as CSR construct based on content analyses. It has four dimensions of CSR including economic, legal, ethical, and discretionary.	None	The study found that firms in the sample period have reported on the four dimensions of Carroll's pyramid. However, there was an enhanced reporting over the discretionary dimension than the other three that are economic, legal, and ethical.
Shahzad et al. [74]	2019	282 respondents who were the junior, middle, and top-level managers of manufacturing firms.	CSR was measured as firm's contribution to environment, employees, community to consumer. The scale was adapted from Turker (2009).	None	The study found that the selected areas have a positive impact on the environment sustainable development (ESD). Green innovation is positively influenced by (ESD) environmental sustainable development.

Authors	Period of Data	Sample	CSR Construct	Measure of Firm Performance	Brief Notes
Ali et al. [24]	2020	Middle and top-level managers of manufacturing firms in Karachi, Lahore, Faisalabad, and Peshawar were the participants of survey. 217 questionnaires were analyzed.	Employees perceived social responsibility practices of their organizations is the CSR construct.	None	Findings suggest that there is a significant effect of CSR on employee's performance and employee's engagement. Employee's engagement also partially mediates the relationship between CSR and employees' performance. The study is based on social identity theory.
Yumei et al. [75]	2019	A sample of 83 SMEs was selected for the study. Sample comprised of 51 local and 32 foreign enterprises.	Financial and environmental CSR were named as the instruments to measure the construct.	Perceived organizational performance	The two dimensions of company's performance e.g corporate reputation and employee engagement are positively related to CSR. The social and environmental dimensions of CSR both contribute towards firms' performance, while environmental dimensions have higher contribution towards the reputation of the firms.
Hayat et al. [76]	2016-2019	41 Multinational Enterprises listed on Pakistan Stock Exchange, having corporate website, and publishing annual reports (CSR, sustainability, or social reports).	Global Reporting Initiative (GRI)- G4 guidelines were used to assess the CSR patterns in the forms' reporting. The indicators in economic, environmental, and social categories were used to assess the firms.	None	Organizations are found to be choosy in reporting the specific dimensions of CSR instead of reporting all the dimensions of GRI-G4 format. Firms are reporting mixed data that is financial and non-financial and there is a lack of transparency in the reported data. It has been found that reporting pattern shows a constant increase over the sample period.
Khan et al. [77]	2005-2017	213 non-financial firms with 2769 firm year observations.	CSR is gauged through CSR monetary spending ratio that is CSR expenditures divided by earnings after tax.	None	The findings of study revealed that firms with higher CSR spending meet lower financial distress. Companies having an effective CSR response can reduce their financial or default risks.
Ramzan et al. [78]	2008-2017	Data was drawn from annual reports of 20 listed Pakistani Commercial Banks.	Donations of the companies constitute the CSR construct.	Financial performance, financial inclusion financial stability	The relationship between CSR and firm performance is in positive direction. CSR is positively related to financial inclusion (FI) measured in terms of number of branches and ATMs per 100,000 population.

Authors	Period of Data	Sample	CSR Construct	Measure of Firm Performance	Brief Notes
Hunjra et al. [79]	2020	183 survey forms were used for analyses. Finance managers were the respondents.	Manager's perception or orientation towards CSR, culture, religiosity, and firm performance over certain indicators was found. Company's CSR activities and policy were the constructs of CSR.	Perceived organizational performance	Culture and religiosity positively influenced the firm performance and in addition both these factors have positive impact on CSR. Furthermore, it was found that CSR positively influenced the firm performance and the same was highly influenced when CSR was bundled with culture and religiosity.
Zaighum et al. [80]	2020	A case study design where a single textile firm has been analyzed.	Worker's perception of CSR is the measure of variable.	None	Semi-structured interviews and observation from the company's documents suggest that workers perceive CSR as an important element for their protection. The organization needs to address the flaws in health and safety, fire-fighting equipment, proper salary, unsustainable storage of chemicals and insufficient training.
Yasir et al. [81]	2018-2019	CEOs, finance managers and managing directors served as respondents. The hotels were chosen on the basis of a criteria being 4 or 5 star registered hotels and having an age of 10 years or more. A total of 324 useable questionnaires were analyzed.	CSR comprised mainly of four constructs e-g CSR orientation, CSR competencies, CSR commitment and CSR participation. CSR items used in these constructs were adapted from earlier studies.	None	CSR orientation and CSR competencies of hotel managers were hypothesized related to their CSR commitment and CSR participation. CSR orientation and CSR participation both were found to have a positive association with CSR participation, and both as pre-conditions of CSR activities.
Shafique et al. [82]	2020	Sample comprised of 307 manufacturing small and medium enterprises (SMEs). A total of 339 questionnaires were received.	Firms perceived CSR and environmental performance were used in the questionnaire.	None	The analyses done through partial least square (PLS) and structural equation modelling (SEM) supported the hypothesis-organizations ambidexterity was positively related to green entrepreneurial orientation. The study further suggested that green entrepreneurial orientation (GEO) positively influenced the SMEs' environmental performance. CSR mediated the relationship between firm ambidexterity and GEO and with higher CSR this relationship was found to be strong.

Table 1.
Empirical and exploratory academic CSR Studies in Pakistan (articles indexed in chronological order).

business and the society. CSR provides strategic advantage to the firms and attracts investors [7, 8]. Carroll's pyramid of CSR provides four dimensions of the business responsibilities e.g., economic, legal, ethical, and discretionary [1, 9] and it is often referred to as Carroll's classical construct of CSR. The debate on CSR is still on being a contested topic among the researchers.

The research on practice of CSR and its philosophy is scarce in developing economies [10], it needs more attention by the scholars [11]. Existing contextual factors are important to be analyzed while studying CSR [12, 13] and the lack thereof may result in flawed understanding [14]. The stakeholders in the emerging economies have their own concerns and needs. Most of the emerging economies in Asia are suffering with poverty, inequalities, human right violations and social exploitations [12, 15] and CSR research should be aimed at highlighting core issues of the stakeholders [16, 17].

CSR has gained a significant importance in Pakistan in 1990s, after the malpractice of child labor in sports industry got international coverage [18]. CSR research in Pakistan, like other emerging economies is in initial stage. Ray [19] initiated CSR research in Pakistan by comparing child labor in Pakistan and Peru [20]. This review includes 65 empirical and exploratory studies published in different Pakistani and international journals from 2000 to 2021 and it is the first study of its kind highlighting CSR measurement and the related theoretical perspectives in Pakistan. Out of the reviewed articles as presented in the **Table 1**, fifty-nine studies (91 percent) have been published from 2011 to 2021, while only six studies (9 percent) were published in or before 2010. This shows an increasing interest in CSR by the researchers. We review the CSR literature in Pakistan according to the chronological order of the studies as done by Mathews [83] for social research.

Rest of the article is organized as follows. Second section contains in the tabular format, the previous CSR studies in Pakistan. Third section is devoted to critical discussion on studies related to corporate social and financial performance link and the studies on managerial and customers/stakeholder perceptions. The fourth section includes discussion on theories. Finally, the fifth section concludes with certain recommendations regarding future academic CSR research agenda in Pakistan.

2. Critical discussion on the literature

CSR research seems to be a decade and a half old academic research as it started effectively in 2006. The study by Ahmad [22] explored the managerial attitude towards CSR. The study by Ray [19] is an indication of malpractices of child labor and Thomsen [21] is a case study of suffering of the local community.

The literature has been reviewed with the deep emphasis on CSR constructs and theory. In the literature reviewed, there are twenty-six studies linking CSR and financial performance. Out of 26 studies, twenty-one (80 percent approx.) reported a positive relationship between CSR and financial performance (see [24, 27, 28, 36–39, 44, 46, 48, 50, 53, 57–61, 66, 67, 70, 78]) while only one (4 percent approx.) reported a negative relationship that is Iqbal et al. [30]. Two studies (8 percent) have reported both the positive and negative relationships. These are the studies by Javed et al. [34] and Arshad et al. [52]. Finally, two studies comprising (8 percent) by Siddiq and Javed [40] and Arshad et al. [49] have reported no relationship.

In the above-mentioned studies five studies have used perceived financial performance. These are the studies by Aga et al. [28]; Khan and Majid [36]; Qazi et al. [50]; Waheed and Yang [67] and Ikram et al. [70]. The study by Aga et al. [28] and Waheed and Yang [67] perceived sales growth and perceived sales performance, respectively. The study by Ikram et al. [70] includes corporate reputation and employee's commitment along with financial performance. Further, four studies which have used perceived organizational performance instead of financial performance and reported positive relationships are by Malik et al. [45], Mukhtar [55], Hunjra et al. [79] and Yumei et al. [75].

The CSR and financial performance link have been thoroughly examined and proved in the existing literature [84, 85] and this has been frequently reported by the researchers in Pakistan. This may be attributed to the satisfaction of the stakeholders that pays off to the firms. On the other way around, there may be slack resources perspective as there is a worthy circle between CSR and financial performance [8, 57] meaning that both these constructs pay off each other. The true check for the acceptability of the relationship between CSR and financial performance needs attention in Pakistan. The operationalization of CSP and CFP is important in such relationships [85]. The measured value of CSR should contain the desired value of the variable. Moreover, the firms should be controlled for other determinants of profitability like size, sales growth, and age etc. The risk-leverage and industry affiliation should also be considered. A great number of the studies do not control the firms for other variables, especially in the earlier studies.

A large number of studies are based on managerial perceptions, customer's perceptions, employee's perceptions, and stakeholder's perceptions. The fourteen studies have used managerial perceptions to build the CSR construct. The study by Ahmad [22] reported that managerial perceptions are in the favor of stakeholders' welfare. The study by Ali et al. [24] (discussed above in CSR-FP link) reported a highly significant relationship between CSR and employee's commitment and then employees' commitment with financial performance. The study by Awan and Akhtar [43] assesses managerial point of view on CSR. The other four studies (discussed above in CSR-FP link) assess CSR by manager's interviews and link it with manager's perceived financial performance (see [28, 50, 67, 70]).

All of these studies reported a positive relationship between CSR and perceived financial performance. The study by Awan et al. [32] builds CSR construct on the index ranging 0–100 by getting responses from managerial level employees. The study finds the social performance score of the organizations. The study by Hunjra et al. [79] relates culture and religiosity with firm performance. The other studies seeking managerial perceptions for CSR are by Shahzad et al. [74]; Ali et al., [86]; and by Yasir et al. [81] etc.

Nine studies include customers rated CSR through questionnaires and interviews. These studies try to find the corporate reputation and purchase intentions of the customers through an inquiry about CSR engaged firms. The important studies are by Ali [26]; Kamran et al. [29]; Naqvi et al. [33]; Khan et al. [35]; Khan et al. [41]; Saleem and Gopinath [47]; Butt [54]; and Chen et al. [63]. The CSR activities are positively related to corporate reputation, purchase intentions, brand image and customer loyalty. The positive purchase intentions of customers reveal the prevalence of customers' preferences for socially responsible firms. The study by Ahmad et al. [71] reveals that CSR efforts of the firms promotes the citizenship behavior of customers.

Some of the studies (discussed above in CSR-FP and CSR-Org performance link) which use employees' perceptions regarding CSR through questionnaires are by Khan and Majid [36]; Malik et al. [45]; Mukhtar [55]. The study by Khan and Majid [36] reported a positive relationship among CSR dimensions and profitability. The other two reported a positive relationship between CSR and organizational performance. The other studies building CSR construct on employee's perceptions are by Hongdao et al. [64]; Zulfiqar et al. [68]; Farrukh et al. [69]; and Khaskheli et al. [72] etc.

These studies obtain the perception of social performance. Getting actual social performance could provide better results. In the studies obtaining perceptive CSR should be based on in-depth interviews of managers and other stakeholders so that a pragmatic inquiry could be made. The CSR construct based on this mode of inquiry will contribute towards healthy literature and in turn will prove useful in corporate enlightenment.

Five of the studies which relate corporate governance and CSR disclosure are by Sharif and Rashid [15]; Majeed et al. [51]; Lone et al. [56]; Azam et al. [62]; and Khan et al. [65]. The first three studies build their CSR constructs on the seven categories i.e., health, education, disasters, donations, employees, environment and products and services. Disclosure index is built by using contents of the annual reports. The study by Azam et al. [62] uses corporate donations as CSR measure and the study by Khan et al. [77] builds their CSR constructs on some promising grounds by considering the quality of CSR disclosure. The work by Nazir et al. [25]; Tausif [31] and Zaighum et al. [80] are the case studies, assessing the level of CSR in companies. Furthermore, the study by Makki and Lodhi [23] investigated the determinants of corporate philanthropy. Finally, the work by Memon et al. [42] tried to find out the development of CSR as an academic discipline in Pakistan.

The studies by Thomsen [21] and Ray [19] assess the effect of malpractices of the firms. Ray [19] analyzed the child labor in sports industry and Thomsen [21] studied the miserable condition of local community due to hazards of highly toxic polluted water emitted by the Tannery industry.

Most of the studies are based on content analyses. The validity of the content analysis relies on the coding scheme adapted by the researchers [87]. The comprehensive CSR index lacks in the studies. The content analyses based on comprehensive evaluation would fill the gap of measurement. A moderate number of the studies use philanthropy as an explicit CSR construct. CSR is to be analyzed beyond philanthropy as there are stakeholders who need to be addressed at large. The fair treatment of labor forces and health and safety conditions of the working environment is often questioned in Pakistan. Firms should be analyzed in the context of their real contribution towards wellbeing of stakeholders at large like employees, community, customers and environment.

In the studies analyzed, few studies have used theoretical perspective. Only six of the studies have used explicit theoretical perspectives in CSR scholarship which are by Khan and Majid [36]; Sharif and Rashid [15]; Malik and Kanwal [61]; Syed and Butt [60]; Khan et al. [65]; and Waheed and Yang [67]. The studies by Zulfiqar et al. [68] and Ali et al. [86] have used social identity theory as depicted in the **Table 2** below. The studies by Majeed et al. [51]; Butt and Butt [57] and

Theoretical perspective	Studies
Stakeholders Theory	Khan and Majid [36], Malik and Kanwal [61], Waheed and Yang [67]
Legitimacy Theory	Sharif and Rashid [15], Syed and Butt [60], Majeed et al. [51].
Institutional Theory	Ikram et al. [70]
Signaling Theory	None
Slack Resources Theory	Butt and Butt [57]
Agency Theory	None
Resource-based View	Khan et al. [65]
Social Identity Theory	Zulfiqar et al. [68] and Ali et al. [86].

Table 2.
Studies using theoretical perspectives.

Ikram et al. [70] have used mixed theories. Only few of the above-mentioned studies have interpreted the findings according to theory. The studies by Syed & Butt [60]; Butt & Butt [57]; Khan et al. [65] and Ikram et al. [70] are prominent to have interpreted the findings according to the theory. This implies that theorizing the CSR research needs greater attention by the researchers.

3. Theories in CSR scholarship

The CSR reporting motives in the developing economies are less researched [88, 89]. The CSR research in developing economies, experiencing growth may rely on theories being used in developed economies [14]. The earlier studies emphasizing theories of managerial motivations [89–92] have been studied in detail for inclusion of theories related to CSR along with book chapters of Freeman [93]; Visser et al. [94]; Jamali [13]. We provide an overview of generally applied theories in CSR scholarship that are legitimacy theory, stakeholder theory, signaling theory, institutional theory, slack resources theory, agency theory and the resource-based view.

3.1 The legitimacy theory

In order to be considered as legitimate, corporations are required to be responsive to the social expectations of the society at large. There is a social contract between business and the society that is central to understand the organizational legitimacy [90]. To ensure their continuous existence and deriving favor from society, the organizations use CSR reporting as a tool however the frequency and extent of reporting may differ across economies [95]. This is done in an endeavor to achieve legitimacy. Legitimacy theory can be an explanatory factor for CSR disclosure [89, 96]. Organizations continue voluntary reporting to ensure their legitimacy. In CSR research about the organizations, a legitimacy explanation can be given after a thorough examination of the disclosure and changes in it [97]. The motivation of firms for issuing standalone CSR reports is consistent with legitimacy theory [98].

3.2 The stakeholders theory

There has been a natural fit between the idea of CSR and stakeholders of an organization [9] and CSR leaves positive impact on its stakeholders [5]. The organizations have responsibilities to multiple stakeholders, and this is what propagated by stakeholder theory [93]. Organizations are not only responsible to themselves but also to the other stakeholders which can affect or can be affected by the organization ([93] p. 25; [99]). Edward Freeman is regarded as "father of the stakeholder's theory". The theory attracted broad appeal from researchers and writers and continues to attract attention [92]. Stakeholder's theory asserts that an active role of business in the society is required towards selective stakeholders rather towards society. The stakeholder's theory is about managing all the groups and individuals who have an influence on the continuity of the organization [100]. Organizations may perform stakeholder analyses and the activities of corporations must be determined which may affect the groups of stakeholders [101].

3.3 The signaling theory

In the developing economies, firms may be in competition for resources to generally show their superiority over the others. CSR is used to signal the investors in the emerging economies [102] to enhance favorable reputation [103]. Likewise, this is done in an endeavor to decrease the information asymmetry between the firms and the relevant stakeholders providing financial benefit to the firm [104, 105]. The obtained third-party private certification is used as a signal to the government of the compliance with the management standards [105]. Companies issue CSR reports to signal their concerns regarding social and environmental issues and ensure the benefit of stakeholders' awareness of the companies' handling these issues [106].

3.4 The institutional theory

The organizations can be viewed in the context of institutional theory. There may be a difference in the impact of national institutional context on CSR. The rationalized institutional rules and the environment results in isomorphic organizational structures [107]. The isomorphism can be coercive, mimetic or normative. In the defined institutional environment, the firm's strategies and practices will become similar due to the similar pressure being faced [91].

The shape of corporate agency may be in the form of voluntary policies or programs in Anglo-Saxon context and is shaped by legal, religious, cultural, political systems, socioeconomic systems, customary or other defined institutions in other contexts [13, 108]. The CSR in developing countries is formed by the pressures being exerted by institutional factors which consider philanthropic part only as the core concept [13].

3.5 The slack resources theory

There is a positive relationship between slack resources and firms' financial performance [109]. Slack resources theory explains the availability of enough resources with the firms which enable these firms to invest in the social performance activities. The allocation of slack resources to social performance domain results in a better social performance [8]. Lee and Wu [110] suggested that the slack resource does have a positive effect on the research and development (R&D) activities of the firms. The firms having more discretionary resources invest in R&D that in turn results in innovation hence leading to the improved financial performance.

3.6 The agency theory

As outlined in Jensen & Meckling's [111] concept of the theory of a firm, the agency theory asserts that there is a conflict of interest between managers and shareholders of a firm [112]. The agency perspective related to CSR shows that in the absence of strong control by shareholders, the opportunistic behavior by managers can exploit corporate resources for their own preferences. This behavior can cause an increase in their own utilities at shareholders' cost and good social performance is maintained at the expense of good financial performance [113]. With reference to CSR, Friedman [6] was arguably an early precursor of agency theory. He asserted that CSR represents self-serving behavior of managers (agents) whose pursuit of social and environmental objectives ultimately harms the shareholders by generating lower profits [91].

3.7 The resource-based view

McWilliams and Seigel [114] defined strategic CSR as the operational mechanism which a firm may employ to gain the competitive advantage in the market.

Thus resource-based view (RBV) helps understanding proactive strategies of investment in social and environmental issues [91]. The internally driven CSR can be found in RBV where managers' motivations could be obtained regarding their pursuit in getting a competitive edge over the competitors. The firm resource model of sustained competitive advantage posited by Barney [115] asserts that sustainable competitive advantage (SCA) is achieved by exploiting four indicators namely value, rareness, inimitability and substitutability.

4. Concluding remarks

In the light of review of CSR literature related to Pakistan we concluded that academic CSR research is in its initial stages. On the positive note, it is on the way of improvement. The measurement of CSR and theoretical foundations are the emphasis in this research. Greater emphasis is required by the researchers to lay down the strong theoretical foundations. While studying the CSR-financial performance link the theoretical perspective, the control variables and the mediators need to be studied hand in hand. The lack or overlook thereof of the thorough explanation of theoretical foundations doubts the interpretation of the results. There may exist external drivers i.e. stakeholder, legitimacy & institutional perspectives that can prevail in driving CSR or the internal drivers like slack resources, signaling, agency or resource-based view that may complement the implementation of CSR.

A comprehensive inquiry about the CSR and managerial motivations is required in the research relying on questionnaire surveys and interviews. The perceived and actual social performance needs to be keenly observed, hence highlighting the perspective of CSR. The academic CSR research based on strong theoretical foundations, capturing the true social performance will help academia to understand the corporations and their concerns for stakeholders. It can become a strong institution to forward a corporate agenda towards a range of stakeholders.

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Section 2

Advances in Corporate Governance: The Global and Covid-Era Perspective

Chapter 3

Recent Advances in Corporate Governance: A Global View

J. Kiranmai and R.K. Mishra

Abstract

Corporate governance is a system of legal approach by which corporates are directed and controlled. The basic focus is on structures of corporate entities, monitoring and directing them for mitigating risks that have been raised due to misdeeds of various factors. The corporate failures such as those of Enron, Xerox, WorldCom, Satyam, and the ones that followed suit, among other things, highlight shortcomings about internal controls, the institution of boards, functioning of board committees disclosures, transparency, reporting standards, and enhancing stakeholder's confidence. Since 2001, emphasis has been laid down on the governance mechanism to be reinforced to retrieve accuracy and reliability. Over the years, several initiatives have been undertaken by the policymakers, governments, regulators, and the private sector to reform corporate governance. The global business model of geopolitical affairs, social and regulatory compliance, and cyber security are some of the key elements that have radically transformed corporate governance's thrust in the present-day corporate context. This paper aims to study the advances in corporate governance practices in terms of its nuances related to board diversity and its evaluation; shareholder activism; environment, social and governance (ESG), and enterprise risk management (ERM).

Keywords: board quality, composition, evaluation, corporate social responsibility, risk management

1. Introduction

Global Financial Crisis (GFC) has amplified corporate governance (CG) issues across the globe. GFC led to the emergence of new corporate governance. Further, the innovations towards new governance system were strengthened by the dot.com bubble in 2000, which was due to the failure of global giants such as Enron, Tycone, Worldcom followed by the downfall of Satyam Computers Ltd., leading to conflict between micro and macro market structure, stakeholders, regulators, and markets. Since then, many countries started working on governance, managing and controlling ethics in business, and benchmarking the best practices of good corporate governance to protect stakeholders' interests [1]. The four important dimensions of good corporate governance are ownership structure, board level governance and accountability and transparency.

Many global institutions such as OECD, WB, Harvard University, ., also actively contributed to strengthening the new corporate governance framework for the third-millennium corporates by releasing guidelines/principles from time to time, enabling corporates to become stable, follow due diligence mechanisms. Sarbanes

Oxley Act, 2002 [2] was an initiative towards new corporate governance regulation by the United States of America. The act emphasized how boards are built, legal framework to raise standards, ethical code, etc.

It is evident that corporate governance strives to strike a balance between the social and economic goals of the corporate entity. The governance framework encourages the effective use of internal and external resources, creates a transparent mechanism, makes stakeholders accountable. The aim of corporate governance is to align the interest of individuals with that of the corporate and the society.

2. Meaning and Definition

Corporate governance is classified as a discipline that is legal in nature. The word is derived from the word "gubernare" which in Latin means to steer, which means corporate governance supports steering the Company. The governance function is to oversee the performance of the board in delivering the corporate objectives. The OECD provides a functional definition of CG as a system by which corporations are directed and controlled. CG is defined as "a system of law by which corporations are directed and controlled focusing on the structures to monitor the actions of management and directors thereby mitigating risks [3, 4].

CG tries to strike a balance between economic and social goals among individuals as well as the community. The effective use of resources ensures accountability for all resources responsible for corporates, stakeholders, and society [5]. CG tries to manage the conflicting and diverse interests of all stakeholders. It deals with conducting the affairs of the company with fairness to benefit all its stakeholders. CG is a key element to improve the economic efficiency of a firm. According to Lim, corporate governance reforms are an ongoing process as long as corporations depend on markets and markets are following the rules and compliances governance reforms are continuous.

Corporate governance has become a dynamic aspect of a business. Corporate governance involves the functions of direction and controls. The recent massive corporate failures resulted due to weak corporate governance systems. Corporate failures such as Enron, Xerox, Worldcom, etc., have highlighted the various issues about reporting standards, enhancing stakeholders' confidence, etc. Since 2001 emphasis was laid down on the governance mechanism to be reinforced to retrieve accuracy and reliability. Over the last two decades, there has been a transformational shift in the various initiatives of governance systems worldwide. CG has become one of the strongest regulatory mechanisms by the governments to enhance transparency and accountability to its stakeholders. The roles and responsibilities of the directors have been well defined to ensure that they are bonded with the legal requirements.

CG is an umbrella term covering the concept and theory. The governance establishes the relationship between boards, regulators, stockholders, auditors including creditors, suppliers, and other interested groups [6]. CG tries to safeguard the interest of investors by making the Board of directors accountable. Good governance is the broader view focusing on the relationship between a company and a range of stakeholders.

Reforming a governance system is a continuous process. These reforms are important and are worth pursuing by the policymakers, corporates, and stakeholders. The new initiations of separating the role of chairman and CEO, introducing non-executive directors, improved corporate disclosures mechanisms, bringing transparency in remuneration, and selection of directors have been highly appreciated by the investors. (**Table 1**) [7].

S.No	Theory	Summary
1	Agency Theory	Principal delegates work to the agent
2	Transaction Cost Economies	Aligning the interest of directors and shareholders
3	Stakeholder Theory	Priority is given to stakeholders rather than shareholders
4	Stewardship Theory	The directors are treated as stewards and are expected to deliver their best to the corporate and its stakeholders
5	Class Hegemony Theory	The directors are empowered to make all the decisions
6	Managerial Hegemony Theory	Knowledge of day-to-day operations
(Source: Mallin, A Christine, Corporate Governance, New York: Oxford University Press, 2007, p. 12).		

Table 1.
Summary of theories affecting corporate governance development.

The new-age business has wiped off the trade barriers across the global markets. Corporates need to adopt result-oriented approaches to keep their organizations in line with the global competition meeting to access capital pool, attract and retain the best talent. Corporations should accept and understand that their growth requires the cooperation of all the stakeholders. Hence, stakeholders enhance the best corporate governance practices. Corporates need to demonstrate ethical codes in business with strong value systems and principles, accounting and transparency, disclosure and compliance, etc. The only tool that would discuss all these aspects is corporate governance. It not only regulates the market but also tries to improve the economic efficiency of the firm. As this process of improving corporate governance is continuous, policymakers and regulators are always updating the framework to develop new governance trends. Evidence indicates that the institutional investments [8] by the company welcome regular governance reforms. The studies reveal that the investor views this continuous reform process as a help rather than a hindrance [9].

3. Parties to corporate governance

There are many parties involved in reforming the corporate governance codes [10]. These include regulatory bodies, policymakers, research institutions, activists groups, consultants, etc. Shareholders, employees, and customers play an important role. The increase in market capitalization, equity holding of investors has made a significant dent in the concept of separation of ownerships. Boards play a pivotal role in implementing the organizational strategies, developing directional policy framework, supervising and governing the functioning, and ensuring accountability and responsibility. The corporate performance depends directly and indirectly upon the involvement of the board and the governance codes. Every stakeholder is responsible for the business's success while the employees and directors receive remuneration, shareholders receive the capital return.

The new corporate governance has been understood with various important parameters such as ownership and business landscape, governance framework, rights of shareholders, and boards independence. It is evident from various research studies that corporate governance impacts the stakeholders such as employees, creditors, shareholders, etc. [11], reducing the business and operational risk [12]. Corporate entities with good corporate governance result in trading, strengthen financial markets, and create value. Proper implementation of governance rules/codes makes institutions less corrupt [13]. The standards and methods have to be implemented while working on the accounting policies and legal systems [14, 15].

According to the PWC[1]', the shift in the global landscape in which companies operate is expected to change in the next few decades considerably. The research shows a projection of 46% by 2025' and this shift brings a change in the investment pattern to improve regulatory framework add an effective governance system among the cooperates. Effective governance system both at the board and senior level strategizes on the objectivity of corporate success. As investors and companies are equally responsible for corporate governance, companies are required to demonstrate that they are acting in the best interests of the shareholders, while the investors should demonstrate that they are acting in the interests of stakeholders.

The economic and the global environment play a critical role in forcing the corporates to change the existing business models. The competitive nature of global capital markets made CEOs believe they are prepared to handle high volatile and complex business requirements. The success of an organization depends on the attitudes and mentality of its leaders. Organizational changes occur when leaders remain calm and focused with a clear understanding of the organizational goals. The expansion of economic boundaries has diversified the global marketplaces to exploit the opportunities and remain competitive, resulting in technological up-gradation and cultural diversity. The number of global alliances through mergers and acquisitions increased, improving the skilling and communication methods. The corporates follow a flexible operating strategy with the right mix to succeed to meet global competition. According to a study of the CG practices of BRICS economies, cross-border mergers and acquisitions led to a cultural shift and improved corporate entities' performance [16]. Research by PWC[2] projects that by 2050, the E7 economies could reach 50 percent of the share in the world GDP. It is reported that China would have 20 percent of the world GDP and would become the largest economy, followed by India in second place.

4. Corporate scandals

The occurrence of corporate scandals was known to the world with less frequency and magnitude. However, due to the open economic conditions and competition in the markets, the magnitude of fraud increased tremendously, leading to trauma situations among stakeholders. These scandals were not confined to the enterprise alone but were impacting the economic conditions beyond borders. During the 1980s and 1990s, due to unethical practices, many corporate giants failed to leave many questions on the governance framework. These corporate failures have given a new role for corporate governance. The entities' legal and regulatory framework made the entities do due diligence and compliance, ensuring transparency and accountability. A few of the classic frauds that led to revolutionary changes in corporate governance are detailed in **Box 1**.

In the context of developing countries, there is a linkage between governance and corruption. If the level of corruption in the country is high, the country's

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[1] https://www.pwc.com/gx/en/world-2050/assets/pwc-the-world-in-2050-full-report-feb-2017.pdf

[2] https://www.pwc.com/gx/en/issues/the-economy/assets/world-in-2050-february-2015.pdf

Enron, USA, 2001, Accounting fraud	**Window dressing of financial statements, lack of internal controls, conflict of interest, unethical behavior, failure of auditors**
Xerox Corporation, USA, 2002, Financial fraud	Non-disclosure of true and fair view operating results
Lehman Brothers, USA, 2008, Financial fraud	Devaluation of assets
Satyam Computer Services Ltd., India 2009, Accounting Fraud	Unethical behavior, unconvinced role of independent directors, misrepresentation of audit and accounting figures, insider trading
Kingfisher Airlines Ltd., 2012, India, Governance failure	Huge accumulated losses, nonpayment of taxes, defaulted bank loans, salaries, etc.

(Source: Authors compilation).

Box 1.
Classic corporate scandals.

corporate governance would be weak. Transparency International[3], a nonprofit organization, aims to stop corruption in various societies by promoting transparency. The corruption perception index (CPI) provides the ranking of countries having low corruption. In 2020, New Zealand ranked first, followed by Denmark, Finland, Switzerland, and Singapore. All five countries have very strong corporate governance codes [10]. In New Zeland, the corporate governance standards are high by international standards, while Singapore promotes high standards of disclosures relating to level, the structure of ownership and compensation [17], Nordic model of governance give priority to shareholders to control and take long-term responsibility for creating value for shareholders [18].

5. CG codes and their relevance

We discuss below some prominent CG codes and their relevance.

5.1 USA

In the United States, the corporate governance concept gained prominence after the landmark scandal of Watergate. As a result, the regulatory and legislative bodies constituted various committees to undertake a forensic audit to find the reasons for the failures leading to creating a Foreign and Corrupt Practices Act (FCPA) in 1977. Later the act supported the formation of the Securities and Exchange Commission. The Act contains specific provisions regarding establishing, maintaining, and reviewing internal control systems.

After a subsequent investigation, US regulatory and legislative bodies found out failures that had allowed corporations to make political contributions, legal and bribing officials. Later, the Securities and Exchange Commission's (SEC), 1970 came into force mandatory internal financial controls for all the listed

[3] https://www.transparency.org/en/cpi/2020/index/nzl

corporates in the USA. The Tradeway Report highlighted the need for proper environmental controls, functions, and an effective audit committee. The two major scandals Worldcom and Enron, have raised questions on transparency, the role of boards, and their performance. The result was an enactment of the Sarbanes Oxley Act (SOXA), 2002. Since then, greater autonomy was given to SEC.

5.2 UK

The modern Companies Act 2006 brought clear statutory statements of directors, their duties, and responsibilities. The Act highlighted the exiting legal framework for companies, role, and responsibilities of directors, auditors, actuaries, shareholders, etc.[4] The Companies Act 2006 primarily details the legislation that applies to companies directly. The act has many regulations, orders, and provisions that the companies have to follow. The various codes of corporate governance in the UK Stewardship code 2020, UK CG Code [19], UK CG Code, 2014, Companies Act 2004, Civil Partnership Act 2004.

5.3 Malaysia

The Malaysian Corporate Governance framework has a strong foundation for the boards and board-level committees. It clearly states the roles, timely actions, disclosures, integrity reporting methods, risk management initiatives, internal controls, participation of shareholders in annual general meetings, etc. The following are the important codes of corporate governance in Malaysia.

- Bursa Malaysia's Corporate Governance Code, 2013
- Amendments to CMSA to empower SC to prosecute CG, 2010
- Corporate governance blueprint 2011
- Listing Requirements amendment on Related Party Transactions, CG and internal control disclosure, 2012
- Bursa Malaysia's Corporate Governance, 2010
- New Malaysian Code on CG, 2017
- Malaysian Code of CG, 2000
- Lumpur Stock Exchange Listing Requirements, 2001

5.4 Australia

In 1999, the Government proposed the corporate law reform program Act to provide statutory guidelines to corporates, revised provisions for directors, accounting standards, etc. Australian Listed companies have a unitary board structure. The act has defined eight core principles to companies about their corporate governance structures. The Australian Securities Exchanges (ASX) listing rules

[4] *Company Law Review Group in 1998 to consider in detail how company law could be modernized.*

mandate the companies to have an audit committee. The board should have 1/3rd members as IDs. The various codes of CG in Australia are Corporate Governance Principles and Recommendations, 2014, 2010, 2007, Principles of Good Corporate Governance and Best Practice Recommendations, 2003, Corporate Governance Report, 2002, 1999.

5.5 India

The culmination of various expert reports submitted to the Government, interventions of the Ministry of Corporate Affairs, Government of India, and the capital market regulator known as the Securities and Exchange Board of India (SEBI) have been bundled together as the Code of Corporate Governance. The Companies Act, 2013 has raised the bar for the boards in India. It talked about various compliances that companies must follow, taking into the global environment. The Companies Act, 12 2013 has raised the bar for the boards in India [20]. The act tried to benchmark with global best governance practices. The act highlighted women directors strike gender diversity on boards, enhanced disclosure norms, performance evaluation methods, mandating corporate social responsibility, introducing class actions suits, internal financial controls, and risk management mechanisms, addressing shareholders grievances, etc. The act also elucidated Independent Directors' role and responsibilities, protecting minority shareholders' interest, shareholder activism, and insolvency regulation. The latest committee is SEBI's Kotak Committee Report, 2017. The earlier committees are Companies Act, 2013, JJ Irani Committee Report, 2003, SEBI's Kumar Mangalam Birla Committee, 2000, CII code, 1998, etc.

6. Global governance trends

The boards are accountable to the company, shareholders, and society at large. Boards are expected to deal fairly with stakeholders. The shift in the governance enhances the board's responsibilities, independence, quality, and evaluation. OECD Report [21] highlighted the rights of shareholders, their equitable treatment, disclosure, transparency, and role of the board. The governance framework should protect the interest of minority shareholders' rights in the company. It also facilitates its stakeholders by creating wealth, employment, and a sustainable business environment. The framework should underpin the board's accountability to corporates and members. In general, there is an increased realization among corporates that corporate governance is a tool to create transparency, accountability, and trust to enhance investment, stability, and growth by value creation. The following **Table 2** depicts phase-wise governance issues and various committees.

Modern corporate governance emphasizes shareholder value creation. It is treated as an integrated approach considering the rights and interests of stakeholders, social-economic concerns, risk mitigation methods, etc. The following are some of the latest trends in governance empowering the boards and the stakeholders.

1. **Enhanced roles of board:** The committees play a significant role in implementing the governance codes. There are two types of controls. They are governance and internal control systems**.** The audit, nomination, and remuneration committee, risk management committee are the three prominent governance committees, while the risk management committee is

Phase 1 (1990-2000)	Phase 2 (2000-2010)	Phase 3 (2010-2020)
Composition	Board composition, strength, and size	Board Committees, size of the board, etc.
Disclosure and transparency	Disclosure and transparency	Disclosure and transparency with ethical code of conducts
Remuneration policy	Remuneration policy and disclosure of Directors remuneration	Remuneration and Nomination committee
Board Meetings	Board meeting and matters to be reserved for board decision	Mandatory attendance for the specified number of the board meeting, relevant qualifications, legal compliance
—	Board's performance evaluation	Board's evaluation and ESOPs
—	Orientation and training of directors	Mandatory Training for Directors
—	Reporting mechanism – Directors Report	Business Responsibility Report
—	—	CG 2.0
—	RBC 1	RBC 2

(Source: Authors' compilation).

Table 2.
Phase-wise governance issues and various committees.

treated as the internal control committee. **Table 3** depicts the various corporate governance regulatory bodies responsible in different countries.

Table 4 details the governance control and internal control committees in various countries. India mandates the Audit, nomination, and remuneration committee, CSR Committee, Stakeholders Grievance Redressal committee for all the listed companies. In Singapore, some companies have a common Audit and Risk Management Committee.

2. **Greater attention towards director independence**

   Independent Directors act as coaches and mentors to companies. The role of an independent director is very enhanced in the present context. They help in improving credibility and governance standards by working and helping in managing risk. The most significant contribution of the IDs must enhance the competence of the board to take the objectives and decisions. Independent directors are responsible for ensuring better governance by actively involving in various committees constituted by the company. IDs are truly independent and have the right to question the board in all its decisions.

3. **Introduction of lead directors**

   A lead director is a board member who is an independent member of the board elects. The Lead Director has certain important duties relating to the board [23]. This Director often is the chair of the governance committee of the board. SEC and NASDAQ required listed companies with non-independent chairpersons to elevate one of their independent directors to the position of lead directors. The lead Director maintains good relationships and functions with the board and the stakeholders [24].

Jurisdictions	Key regulators	Ruling body	Members	Representatives from specific entity				Appointments
				Government	Central Bank	Others Public	Others private	
India	SEBI/MCA	Board	9	Y	Yes	—	—	Ministry of Finance
United States	SEC	Commission	5		—	—	—	President
United kingdom	FCA	Board	12	Y	—	Y	—	Treasury
Australia	ASIC	Commission	3-8 (5)	—	—	—	—	Government –General
Singapore	MAS	Board of Directors	9	—	—	—	—	President
Malaysia	SC	Commission	d	Y				Ministry of Finance

Y – Yes.
(Source: Authors' compilation).

Table 3.
Regulators for corporate governance.

Jurisdictions	Governance Control			Internal Control	
	AC	NC	RC	RM	Other Committees
United States of America	SEC 17	Yes	Yes (SEC, Rule 10C-1)	Yes	—
United Kingdom	Yes (UKCG Code, 2018)	Yes	Yes (UKCG Code, 2018)	Enterprise-wide Risk Committee	—
Australia	Yes	Yes	Yes	Yes	—
Singapore	Yes (Audit Committee Code Principle 12 Code Guideline 12.1,12.9)	Yes	Yes (Code principle 8 and 9)	Yes	Executive Committee
Malaysia	Yes (MCCG Paragraph 15.17 of Bursa's Listing Requirements)	Yes(MCCG Paragraph 6.2 of Bursa's Listing Requirements)	Yes	Yes (MCCG [22], Paragraph 15.25of Bursa Malaysia Listing Requirements)	Committee Shareholders
India	Yes (Section 177)	Yes [Section 178(1) to (4)]	Yes (Section 178 (1) to (4))	Yes	Shareholders Committee (Section 178(5) to (8)), CSR Committee Section 135),

(Authors' compilation).

Table 4.
Governance and internal committees.

4. Board evaluations

Board evaluation ensures a good understanding of the directors' duties, adopts effective governance practice, and protects the community and shareholders. Board evaluation would help the directors to have an enhanced role and act in good faith in promoting the interest of the stakeholders. Higgs Report, 2003 was one among the first board performance evaluation reports which highlighted the role and effective functioning of independent directors in the UK. Board evaluation examines the role of the board and the entailing responsibilities and assesses how effectively the board fulfills these. By doing so, the boards can identify the key challenges faced by the organization and add real value to corporates. OECD's[5] has identified four dimensions of board evaluations. Board evaluation includes (i) Monitoring and risk management, which highlights parameters such as compliance, law, regulation, whistleblower approach, related party transactions, conflict, etc., (ii) Strategy and business involving innovation, growth, value creation, network connections, etc., (iii) composition and diversity includes gender, skill, integrity, independence, knowledge, etc. (iv) board dynamics and process details on commitment, engagement, preparation, schedule, etc.

[5] Board Evaluation: Overview of International Practices, OECD, 2018.

5. **Board diversity**

   The heterogeneous composition of age, gender, education, race, lifestyle, culture, experience, nationality, religion, and many facets that make us unique is called diversity. Although the board deals with the external environment of the corporate [25], directors' as members appointed on Board, their experience and their equity ownership in the firm resulted in the board heterogeneity [26]. For example, 59 percent of the directors in S&P 500 companies were women or were men belonging to a racial or ethnic minority group· [27]. Research findings depict that diversity and inclusion benefit individuals, teams, and society. In contrast, women at the top of the leadership ladder express interest in an organization and perceive the organizational objectives [28].

6. **Shareholder's activism**

   Activism is a broad spectrum. Shareholder activism includes shareholders' voting rights, discussions forums, behavioral influences, communications, resolutions, shareholder meetings, etc. It is a powerful tool that shareholders have to influence a corporate by exercising their rights as company owners. Recently, this movement has moved across companies in all sectors. As a result, shareholders can assert their rights and power as owners of the Company. It involves the shareholders' efforts to bring desired changes in the operation of companies and influence the management on the governance mechanism and protect the interest of the shareholder. Through this, they create value by acting as a positive catalyst for corporate growth a [29].

7. **Information technology governance**

   Technological advancement created opportunity and risk. The sheer growth in the size of companies has become more complex, and their dependence on the online cloud platforms has become necessary. There has been a transformational shift in the technology application in the board room. An E-voting facility has been introduced. Most of the companies are engaged in data management using AI and cloud-based technology to safeguard the data. Companies have adapted e-tendering for calling the procurement tenders. The evaluation of tenders is also done online. An increase in strong security systems has reduced cybercrimes.

8. **Compensation, risk, and ESG Governance**

   These are emerging and hotly debated issues in the realm of corporate governance. The compensation to the CEOs has gone through the roof and is termed as "abusive". Under "No Disclosure Agreement", companies are not obliged to disclose the amount of compensation and the bonuses given after the tenure or as part of severance packages. Such abusive compensation is not even linked to scientific parameters. However, some companies have started linking CEO compensation to ESG parameters. The overall performance of the board and board members are also gaining currency. ESG parameters and contribution to strategic decision-making is employed to evaluate the Board's performance. Risk management has gained a huge spotlight as a corporate governance parameter. The risk could include the nature of political, product, market, and financial factors. Responsible business conduct is a new dimension that is replacing corporate social responsibility.

7. Conclusion

An efficient, effective, and futuristic corporate governance is considered the hallmark of sound business management. Corporate governance encompasses the internal and external dynamics of controlling and directing business. A quality board supported by professionally managed board committees, well-oiled internal control machinery, transparent reporting and compliance, non-abusive compensations to key managerial personnel and CEOs, safeguard against related party transactions, and weaving the company operations with the thread of ESG could ensure a company to be corporate governance compliant. Good corporate governance is sine – qua – non for the financial stability of corporates and economies, on the one hand, and builds confidence among the investors, on the other.

As corporate governance is associated mostly with listed companies, the unlisted companies have not complied with corporate governance norms. Many countries do not mandate corporate governance codes for unlisted companies. To bring the unlisted companies under the governance framework is a bigger challenge for governments as the companies are characterized in various sectors. But some government is trying to create an effective internal and external mechanism for unlisted companies to improve the socio-economic growth of the Company. Larger companies that are unlisted are brought under the scan of the Government in terms of their ownership structures, professional management, transparency, awareness, etc. One of the major challenges countries would face making unlisted companies comply with corporate governance codes.

Abbreviations

ASIC	Australian Securities and Investment Commission
CEO	Chief executive officer
CG	Corporate Governance
CSR	Corporate Social Responsibility
ERM	Enterprise Risk Management
ESG	Environment, social and governance
FCA	Financial Conduct Authority
GFC	Global Financial Crisis
ID	Independent Directors
MCA	Ministry of Corporate Affairs
PWC	Price Waterhouse Cooper
RBC	Responsible Business Conduct
SC	Securities Commission
SEBI	Securities Exchange Board of India
SEC	Securities Exchange Commission
SOX	Sarbanes Oxley
UK	United Kingdom
USA	United States of America

DOI: http://dx.doi.org/10.5772/intechopen.100135

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Chapter 4

COVID-19 and Corporate Governance Performance: Beyond the Financial Metrics

Ifeanyi Onuka Onwuka

Abstract

Corporate governance and, more broadly, the performance of corporate boards have traditionally been measured using financial metrics. These financial metrics such as Return on Investment (ROI), Return on Assets (ROA), Return on Equity (ROE), Earnings and Profitability Ratio (E and P) are *ex post* measure of organizations performance arising from corporate board activities. These financial metrics are largely one-dimensional measure of corporate performance and do not fully account for the other dimensions of organization responsibilities. The COVID-19 and the changing organizational dynamics have made the case for corporate board's performance to be assessed beyond the usual financial metrics. In this study, we provide a framework that accounts for the various dimensions of organization activities: finance, social and environmental, the Triple-Bottom (TBL) approach. A TBL-compliance metric was constructed, which tracked the performance of selected manufacturing firms in Nigeria using a content analytical technique. The result showed that the majority of the firms performed remarkably well in areas of profitability and economic value creation but less satisfactorily in areas of social and environmental sustainability. On aggregate, the sampled firms committed less than 1% of their profit after tax on corporate social responsibility, while less than 5% of the sampled firms scored above average on the TBL-adoption matrix.

Keywords: COVID-19, corporate governance, financial metrics, corporate social responsibility, JEL Classification: M14, M38, Q56

1. Introduction

Early this year, news broke out that a novel coronavirus has hit the city of Wuhan, China. It was reported that the SARS-COv2 virus is responsible for the COVID-19 pandemic. The virus later spreads to other parts of the world from early February 2020 and currently, 213 countries are battling with the scorch of the virus [1]. As expected, the coronavirus pandemic is impacting the world in a way that has not been seen since World War II [2]. In particular, the pandemic has impacted the way businesses are now being conducted and the expectations of the various stakeholders on organizations going forward. For instance, there is now greater awareness on issues of human rights protection, environmental protection, health, and safety issues. More than ever before, the issue of corporate social responsibility (CSR) and the duty of care to broader stakeholders by business entities have become more compelling. The pandemic has also increased the interest of the public in supporting responsible business practices and it is expected that consumers will henceforth be demanding more information as to how companies address risks and opportunities relating to health and environmental issues.

Moreover, there is likely to be greater convergence of expectations by citizens of various countries with regard to minimum standards corporations should achieve in relation to social, health, and environmental issues regardless of the jurisdiction in which the corporations operate and there will also be increased demand on organizations to go beyond current regulations and legislations regarding corporate social responsibilities to something much more encompassing.

Even before the coronavirus pandemic, many organizations around the world were already voluntarily integrating the considerations of broader community interest into their core business strategies. The coronavirus pandemic has made these considerations even more forceful and compelling.

In this paper, we make a case for broadening the scope of corporate governance measurement to take account of other considerations outside the financial metrics and we outline the conceptual and empirical approach for doing so. The paper, therefore, has two broad objectives:

First, we provide a conceptual and methodological overview on the uses and empirical implementation of triple-bottom measurement using firm-level data. Second, we demonstrate, using data from selected manufacturing firms in Nigeria, how the general methodological approach can be usefully applied and tailored to various sectors and contexts to yield policy-relevant insights about how corporate governance performance should be assessed beyond the financial metrics.

Following this introduction, the rest of the paper is organized as follows. The next section provides a conceptual review of the triple-bottom approach to corporate governance measurement. We provide the rationale for assessing corporate governance performance beyond the usual financial metrics. In the third section, we provide simple taxonomy for thinking about triple bottom in corporate governance assessment and use this taxonomy to suggest how different organizations can use the triple-bottom approach to assess the performance of their corporate boards. The section also contains an operational definition of corporate governance and a triple-bottom approach that can, in principle, be taken to the data beyond the financial metrics.

In section four, we outline a general and flexible methodology for empirical implementation of triple-bottom measurement to corporate governance using firm-level data. After summarizing the basic approach, we demonstrate the various steps involved and the measurement issues that could arise in each step.

In section five, we provide the policy implication of using the triple-bottom approach in assessing corporate boards and suggest ways organizations and governments could integrate triple-bottom reporting post-COVID-19.

2. Review of literature

In this section, we review the extant literature on corporate governance and sustainability with the analytical spotlight on the corporate governance framework during the COVID-19 pandemic.

2.1 Concept of corporate governance

There are various definitions of corporate governance in extant literature. However, the best definition seems to come from the Canadian Office of the Superintendent of Financial Institutions [3]. The office defines corporate governance "as the oversight mechanisms which include the processes, structures and information for directing and overseeing the management of a company" (p. 3). This definition is pervasive as it encompasses the means by which members of the board of directors and senior managers are held accountable for their actions and the establishment and implementation of oversight functions and processes. According to Cadbury Committee ([4], p. 15), "corporate governance is holding the balance between economic and social goals and between individuals and communal goals" The Organization of Economic Cooperation and Development [5] defines corporate governance as the "distribution of rights and responsibilities among different participants such as the shareholders and other stakeholders" (p. 32).

Corporate governance studies gain traction in the early 2000s due to conspiracy of events and the scandals that rocked the corporate world from the unexpected failures of large corporations around the world, especially Enron, WorldCom, Tyco International (United States of America), HIH Insurance (Australia), Parmalat (Italy), etc. The scandalous collapse of these corporate giants jolted the corporate world and led to massive calls for greater attention on the activities of boards in corporations. These calls were not, however, unfounded as several (postmortem) studies show that the collapse of many of these corporations was attributable to ineffective and weak corporate governance practices especially in areas of excessive risk-taking by management with weak oversight by boards; excessive remuneration taking by management with fraudulent acquiescence by the board; flagrant neglect and override of internal control measures, abuse of office, absence or nonadherence to authority limits and general laxity on the part of boards to effectively discharge their oversight functions (see [6–10] for Enron case); see [11–15] for WorldCom case; see [16–18] for HIH Insurance case; see Shleifer and Vishny [19] and Olena [20] for Tyco International case; also see [21–28] for Parmalat case).

The shock that followed these corporate scandals prompted a chain of regulatory and supervisory interventions around the globe [29]. The United States fired the first shot with the enactment of the Public Accounting Reform and Investors Protection Act of 2002 known as "the Sarbanes-Oxley Act" [30]. Many other countries followed suit with similar enactments including the stock exchange codes in the United Kingdom and the code of corporate governance for quoted companies in Nigeria [31].

The overarching objective of these regulations has been to improve the effectiveness of boards and other corporate governance practices in corporations. It is widely accepted based on a fairly large body of scholarly works that board effectiveness could play a vital role in determining corporate financial performance (see, for instance, [32–45]. This belief may have accounted for the preponderance in the usage of financial indicators in measuring the performance of boards. In other words, it has been the practice in extant literature to measure the effectiveness of boards in terms of financial performance of the organization using for instance indicators like profitability, return on investment (ROI), return on assets (ROA), return on equity (ROE), firm's value (Tobin's Q), earnings per share (EPS), etc.

These financial indicators are usually highlighted in financial statements (e.g., income statement, balance sheet, and notes to the financial statement). It is also common to find in annual reports of organization scanty mention of issues related to corporate social responsibilities (CSR) and some humanitarian activities undertaken by the organization [46].

This approach to measuring corporate performance based largely on financial metrics is being challenged by recent re-alignments and a paradigm shift in expectations by the stakeholders. It is increasingly clear that measuring corporate performance based entirely or largely on financial metrics does not fully account for the social, health, and environmental benefits derivable from corporate activities. There is a growing consensus that organizations must fully account for how much (or less) they are contributing in addressing the social, health, and environmental issues that confront mankind [47, 48]. It is in this respect that the concept of sustainability reporting and the triple-bottom-line (TBL) framework enunciated by Elkington [49] comes in. This framework is a paradigm shift from the traditional "for profit" to a more comprehensive assessment along the dimensions of profit, people, and the planet.

2.2 Sustainability and triple-bottom-line (TBL) framework

Sustainability is simply defined by the United Nations Brundtland Commission [50] as "meeting the needs of the present without compromising the ability of future generations to meet their own needs." To achieve this, the United Nations in 2015 [51] articulated the 17-sustainable development goals (SDGs). The sustainable development goals form the framework for improving the lives of populations around the world and mitigating the hazardous man-made effects of climate change. For instance, SDG 13: Climate Action, calls for integrating measures to prevent climate change within development frameworks. SDG 14: Life below water, and SDG 15: Life on land, also call for more sustainable practices in using the earth's natural resources. Today, there are almost 140 developing countries in the world seeking ways of meeting their development needs, but with the increasing threat of climate change, concrete efforts must be made to ensure development today does not negatively affect future generations.

It must be remarked that sustainable development has been the promoted goal of responsible corporate entities around the world. Most of the corporate governance codes around the world have continued to harp on the issue of sustainability with businesses and corporations around the world increasingly re-appraising their business models to be sustainability-compliant [52, 53].

However, in spite of the focus on issues of sustainability, measuring the degree to which an organization is being sustainable or pursuing sustainable growth has not been easy or clear-cut [54]. In the mid-1990s, Elkington [49, 55] developed a template for measuring sustainability in what has become known as the triple-bottom-line (TBL) approach. This framework measures corporate performance beyond the usual financial metrics of profitability and firm value (or shareholder value) to include the environmental and social dimensions of a firm's activities. By focusing on the comprehensive assessment of a firm's activities along with the three-dimensional trajectory of profits, people, and the planet—the TBL has become an important assessment framework for measuring sustainability and sustainability goals.

As a concept, the TBL is a construct that broadens a business focus on the financial bottom line to include social and environmental considerations. By applying the framework, it is plausible to measure a company's degree of social responsibility, its economic value creation, and the environmental impacts of its operations. The framework was introduced in 1994 by John Elkington and later demonstrated in his 1997 book "*Cannibals with Forks: The Triple Bottom Line of 21st Century Business*" [49]. As recognized by Elkington himself, a key challenge before the introduction of the TBL framework was how to explicitly measure the social and environmental bottom lines, unlike the financial bottom line which is easily measured by financial metrics. This difficulty has led to the three bottom lines being evaluated separately on their own merits.

However, the TBL is an accounting framework that incorporates these three dimensions of performance—financial, social, and environmental. By incorporating these dimensions of performance, the TBL differs from traditional accounting reporting frameworks by the inclusion of ecology (or environment) and social measures which are difficult to assign numerical values to. The triple-bottom framework is also commonly referred to as the 3Ps (people, planet and profit) in corporate governance literature [56]. The TBL captures the essence of sustainability by its focus on measuring the impact of an organization's activities not only on its profitability and shareholders' value but on the social, human, and environmental dimensions [54].

The TBL accounting approach has gained increased traction since the launch of the sustainable development goals by the United Nations in 2015 and many organizations and businesses have adopted the TBL sustainability framework to evaluate their performance and check how sustainable-compliant their activities have been [53, 57–59].

The TBL approach has also gained currency with governments at all levels in many developed countries [60]. In consequence, there have been shifts from profit-making and shareholders' value maximization orientation toward the social and environmental benefits derivable from corporate activities. Increasingly, other stakeholders (besides the shareholders) are expressing interest to know how many corporate organizations are contributing in addressing societal and environmental-related issues within the environment where they operate. This call will only get louder post-COVID-19 pandemic.

2.3 Measuring the triple bottom lines

2.3.1 Measuring instrument

There is no universal approach yet to measuring the TBL [61]. Aside from the absence of a common denominator for measurement, there is also the issue of differences in the country's institutional dynamics and country-specific approaches to issues of sustainability. For instance, profits globally are measured in monetary units, for instance, in US the dollar. But how does one measure social capital or environmental or ecological well-being (or lack thereof)? Therefore, finding a common unit of measurement for the TBL has remained a challenge [62, 63].

Some scholars have advocated monetizing all the three dimensions of the TBL. However, the practical challenge is how to put a monetary value on many intrinsic social or environmental issues [54]. For instance, how can one monetize the issue of endangered species or the loss of wetland or fauna? Other scholars have suggested the calculation of TBL in terms of an index, perhaps a principal component index (PCI). By this method, we eliminate the incompatible-unit problems and as long as there is a universally accepted accounting method that allows for comparison between entities, for instance, comparing performance between companies, cities, development projects, or some other benchmark, there will be no problem. The Indiana Business Research Center's Innovation Index is one such index that has been used to compare a variety of components between one country and other countries [63].

However, there still remains the problem of subjectivity in using such an index. For instance, how are the index components weighted? Would each "P" in the TBL get equal weighting? Even if we relax this condition, what about the subcomponents within each "P" as is usually the case? Do they all get equal weighting? For instance, is the people category more important or equal to the planet category? Who decides which component weighs heavier in the ranking? [61].

There is the other option to do away completely with measuring sustainability using a financial metric or an index. In this case, each sustainability measure will stand alone. For instance, acres of wetland could be a measure of its own, and progress could be measured or gauged based on certain parameters like wetland creation, destruction, or status quo over time [64]. However, the problem with this approach is the high probability of proliferation of metrics that will be ultimately required to measure sustainability in a wide range of issues to the point that the TBL user may become metric-fatigued.

2.3.2 What should go into the index?

In the absence of a universally accepted method for calculating the TBL or an agreed standard for weighting each of the components of the TBL, it becomes a discretionary issue on what goes into the sustainability index and what is left out. In other words, the user is at liberty to adopt a general framework or adapt the measurement to the specifics of its own needs. For instance, a business entity and local government agency may measure environmental sustainability in the same terms; perhaps, reducing the amount of solid waste that goes into the landfills, but a local mass transit may measure success in terms of passenger miles, whereas a profit-making bus company may measure success in terms of earnings per share. The TBL framework is flexible enough to accommodate various divergent perspectives to sustainability measurement [62].

According to Hackling and Guthrie [62], the TBL can also be adapted to be case or project-specific or allow a broad scope-measuring approach across large geographic boundaries or a narrow geographic scope like a small town. A single case or project-specific TBL approach would measure the effects of a particular project in a specific location, such as a community building a park or town hall. The TBL can also apply to infrastructure projects at the state level or energy projects at the national level.

From the foregoing, it appears that the level of entity, type of project, and geographic scope will in most cases determine the decisions about what measures to include. However, it is the stakeholders and subject matter experts that will ultimately determine the set of measures to include in sustainability assessment and the availability of data.

Slapper and Hull [54] have, however, categorized the traditional sustainability measures which have been gleaned and pieced together from academic discourses and empirical works. They include:

2.3.2.1 Economic measures

Economic measures of sustainability focus on the flow of money, income and expenditures, taxes, business factors, employment, and business diversity factors. Other variables that could come under economic measures include personal income, cost of underemployment, job growth, revenues, and all the other factors that relate to the flow of money or some economic resources.

2.3.2.2 Environmental measures

Under environmental measures are issues related to natural resources including other free gifts of nature like air, water quality, energy consumption, solid and toxic waste, and land use. Other environmental issues that an organization may wish to consider in sustainability measurement include issues related to sulfur dioxide concentration, nitrogen oxides concentration, selected priority pollutants, fossil fuel usage, solid waste management, hazardous waste disposal and management, and change in land use, deforestation, endangered species, etc.

2.3.2.3 Social measures

Social measures will focus on issues related to the social dimension of communities or regions and include issues, such as education, equity and access to social resources, community health, and well-being. Other social issues are the use of social capital, unemployment rate, female labor force participation rate, household income, level of poverty, access to education, crime rates, life expectancy, etc.

Hackling and Guthrie [63] observed that data for these measures may not be easily available at the community, state, or national levels; and even where data is available, it is still a subjective issue of what to incorporate or discard in the measurement. By and large, TBL can be difficult to measure. Indeed, of the three legs of the triad, social and environmental dimensions are the most difficult to measure. For instance, the first P = profit can be easily put in black and white, the other 2Ps—people and planet (or social and environmental) are highly subjective. How can one put a monetary value on an oil spill? How does one measure the monetary cost of child labor or the cost of deforestation and loss of wetland? These are not easy tasks even for the most enthusiastic sustainability advocate.

3. Methodology

3.1 Design

The study used a mixed-method design which comprised qualitative and quantitative analysis. The dataset comprised financial data from annual reports and statements of income of selected quoted manufacturing firms in Nigeria. These were complemented by 17-TBL-adoption metrics—a construct that was developed and used to track the performance of these selected firms along with the TBL parameters (see Appendix 2).

3.2 Sample and sampling technique

Nine manufacturing firms were selected for the study. The purposive sampling technique was used in the selection of the manufacturing firms for the study. The primary criterion for the selection of firms is that such firms must be quoted in the Nigerian Stock Exchange (NSE) and must have been rendering annual returns consistently to the Securities & Exchange Commission (SEC) for the period covered by the study. Efforts were also made to ensure sectoral dispersion in the selection of the sampled firms.

3.3 Analytical technique

Apart from the financial data which was gleaned from the annual reports and statement of accounts of the selected manufacturing firms, a TBL-adoption matrix was constructed to track each firm's commitment and achievement in the area of social and environmental sustainability. As observed earlier, the TBL framework rests on three tripods or 3Ps (profit, people, and planet). These 3Ps constitute the triple bottom lines. Each bottom line has a unique focus. For instance, the first P (1P), *people*, represents economic value creation (profit), the second P (2P), *social*, represents people/society, and the third P (3P), *planet*, represents the environment.

The first P, the economic value creation was proxied by profit after taxation (PAT). This has a numerical value and can be accessed from the annual reports and statements of accounts of the selected firms. The second P, people (social), was proxied by expenditure on corporate social responsibility (CSR). This too has a numerical value and can be gleaned from the annual reports and statement of accounts of the selected firms. The third P, the planet was proxied by a principal composite index derived from a 17-TBL-adoption matrix—a construct developed to track policy enunciation and commitment to environmental sustainability.

It was important to check how each of the firms was progressing toward being totally compliant in the context of social and environmental sustainability. To check this, a TBL-compliant matrix was constructed based on some qualitative parameters. The first construct, TBL_1 was derived using the principal component index (PCI). The PCI was necessary to reduce the dimension of the dataset and extract the main characteristics from it. This method is useful to obtain an index that measures the different phases in the TBL-adoption process. Five major processes were identified in the sustainability process namely—commitment to disaster and humanitarian reliefs, commitment to reduction in carbon emission, commitment to improved energy efficiency and use, commitment to use of renewable materials that will ensure efficient technologies, and reduced emissions from all production processes. Each of these processes was allocated a numerical value between 0 and 2. Zero denoting starting period progressing to 2 depending on the degree of commitment to each of the parameters. From this, we generate a matrix of three indicators for each firm and apply the principal component analysis. We identified 17 major progressions toward being TBL-compliant.

The second sustainability index, TBL_2, involves a systematic assignment of a numerical value to each of the progressions in the 17-TBL-compliant ladder. This numerical assignment was based on a prima fascia evaluation of each firm's commitment to sustainability through policy enunciation or actual performance along with the TBL-compliant matrix.

This approach at assessing quantitatively and qualitatively corporate governance performance proxied by a firm's commitment to sustainability in Nigeria is robust than earlier attempts which focus largely on the financial dimension of a firm's activities.

4. Result and discussions

4.1 Data from selected manufacturing firms in Nigeria

The annual reports and statement of accounts of selected manufacturing firms (namely, Berger Paints Nigeria Plc, Beta Glass Nigeria Plc, Honeywell Flour Nigeria Plc, Lafarge Nigeria Plc, May & Baker Nigeria Plc, Unilever Nigeria Plc, Cadbury Nigeria Plc, Guinness Nigeria Plc, and Nestle Nigeria Plc) were examined to assess each firm's financial performance and commitments to social and environmental sustainability.

Three indicators were used for this assessment in line with the triple-bottom-line (TBL) framework. The first indicator was profit after tax (PAT) which stands proxy for a firm's financial performance representing the first P in the three legs of the triad (profit). The second indicator is expenditure on corporate social responsibility (CSR) which stands proxy for firm actual commitment to social sustainability, representing the second P in the three legs of the triad (social). The third indicator was a composite score based on the principal component index from a construct—the 17-sustainability matrix developed to track each firm's commitment and policy enunciation to environmental sustainability, representing the third P in the three legs of the triad (environmental). These complete the triple-bottom framework (3Ps—people, planet and profit).

Table 1 is aggregate data on the financial performance of the selected firms for the period 2014–2018 while the individual firm's performance is shown in the appendix. **Table 2** shows the performance of the firms on the TBL-adoption matrix.

In terms of financial performance, **Table 1** shows that all the selected manufacturing firms performed remarkably well within the period under review. Except for May & Baker Nigeria Plc and to some extent, Berger Paints Nigeria Plc, the rest of the firms recorded profit after tax (PAT) in excess of the industry average of N2billion for the period under review. Therefore, in terms of economic value creation and the first bottom line, profit, we can conclude that all the selected manufacturing firms performed remarkably well for the period 2014–2018.

At a comparatively level, Nestle Nigeria Plc recorded the highest profit after tax (PAT) of approximately N131billion within the 5-year period under review. They were followed by Lafarge Nigeria Plc that recorded a profit after tax of approximately N38billion within the same period. Unilever Nigeria Plc and Guinness Nigeria Plc came in third and fourth position with a profit after tax of approximately N25billion and N24billion, respectively. Berger Paints Nigeria Plc and May & Baker came at the rear with a profit after tax of approximately N1billion and N783million, respectively.

In terms of performance on social sustainability, proxied by expenditure on corporate social responsibility (CSR), Lafarge Nigeria Plc tops the list. The company spent approximately N3billion or 8% of its profit after tax on CSR within the period under review. They were followed by Unilever which committed approximately N326million or 1.3% of profit after tax on corporate social responsibility. As a percentage of profit after tax, May & Baker came third with a commitment of

Firm	Profit after tax (N'Million)	Expenditure on corporate social responsibility (N'000)	% of PAT on CSR	Composite score on the 17 TBL-adoption matrix (max = 100)
Berger Paints	1,290,943	3958	0.30659758	40.6
Beta Glass	15,600,007	51,942	0.33296138	34.7
Honeywell Flour	10,179,894	62,971	0.61858208	37.6
Lafarge	37,538,693	3,142,918	8.372475834	47.1
May & Baker	782,528	10,631	1.358545637	35.3
Unilever	24,678,819	325,849	1.320358969	61.2
Cadbury	4,117,294	32,360	0.785953104	50.0
Guinness	23,915,868	114,143	0.477268899	52.4
Nestle	130,629,141	137,569	0.105312642	55.3
Total	248,733,187	3,882,341	1.560845598	

Source: Author's computation from the Annual Reports and Statement of Accounts of selected Manufacturing Firms in Nigeria (2014–2018).

Table 1.
Aggregate financial and TBL performance of selected manufacturing firms in Nigeria (2014–2018).

Firm	2014	2015	2016	2017	2018	Total	% Score*	Rank
Berger paints	12	12	15	15	15	69	40.6	6
Beta glass	10	10	12	12	15	59	34.7	9
Honeywell flour	12	12	12	14	14	64	37.6	7
Lafarge	15	15	15	15	20	80	47.1	5
May & Baker	10	10	10	15	15	60	35.3	8
Unilever	20	20	20	22	22	104	61.2	1
Cadbury	15	15	15	20	20	85	50.0	4
Guinness	15	17	17	20	20	89	52.4	3
Nestle	15	17	20	20	22	94	55.3	2

Source: Computed from the analysis of the firm's annual reports (various years).
*Percentage score $= \frac{\text{Total score attained}}{\text{Total attainable}} \times 100$. *Total attainable = Maximum score for a year × Number of years = (2 × 17) = 34 = 34(5) = 170.*

Table 2.
Relative Scores of the selected manufacturing firms on the TBL-adoption matrix.

approximately 1.4% of their profit after tax on expenditure on corporate social responsibility.

On the aggregate, the nine selected firms committed the sum of approximately N4billion or 1.6% of their profit after tax of approximately N249billion on corporate social responsibility for the 5-year period under review. Moreover, apart from Lafarge Nigeria Plc, Unilever Nigeria Plc, and May & Baker Nigeria Plc, none of the firms committed up to 1% of their profit after tax on corporate social responsibility. This is considered a dismal performance from the prism of social sustainability.

As it can be seen in **Table 2**, in terms of commitment to environmental sustainability, proxied by policy enunciation and concrete avowal to these policies, none of the firms, except Unilever Nigeria Plc, score up to 60% on aggregate in the 17-TBL matrix.[1] **Table 2** shows the level of progress recorded by each of the firms in the 17-TBL adoption process. Although, most of the firms do not score above 60% in the adoption matrix, most made remarkable progress on a year-on-year basis on the TBL-adoption process[2]. Unilever has been very consistent in its commitments to environmental sustainability as can be seen by its strong showing in all the performance parameters all through the period under review. Lafarge, Cadbury, Guinness, and Nestle have also been consistent in their commitment to environmental sustainability. These companies, among others, consistently carry out environmental sustainability audits to assess the impact of their operations on the environment, and Lafarge in particular has taken steps to reduce emission and waste arising from their operations.

An important feature to note is that all the multinational corporations have shown more commitment to environmental sustainability than the local corporations. However, in the aggregate, there is still much to be done by the firms to be fully compliant in line with the TBL framework.

[1] The 17-TBL-adoption matrix was created based on key components of environmental and sustainability issues that companies as good corporate citizens should be concerned about in their operations.

[2] Brief review of policy enunciation and commitment to environmental sustainability by each of the selected firms is shown in the appendix.

5. Conclusion, policy implications, and recommendations

5.1 Summary and conclusion

The COVID-19 pandemic will predictably change the way corporate governance performance will henceforth be measured. The traditional method of measuring corporate governance based largely on financial metrics will no longer be adequate as businesses and firms will increasingly be required to account for the social and environmental impact of their operations. This is where the triple-bottom-line (TBL) framework developed by John Elkington [49] becomes imperative.

In this study, we have demonstrated, using data from selected manufacturing firms in Nigeria, how this approach can be usefully applied to measure not only the profit angle of a firm's operation but their commitment to social and environmental sustainability in line with the TBL framework. We have shown that measuring the social and environmental aspects of a firm's operations is equally as important as measuring financial performance. The extant literature is replete with studies that measured corporate performance from the prism of financial indicators but not enough studies have been done to measure corporate performance beyond the usual financial metrics. To this end, this work has added to the growing literature on corporate governance performance using nonfinancial indicators.

5.2 Policy implication and recommendations

The study has thrown up a lot of policy imperatives as follows:

1. There are currently no metrics to measure what makes a firm's commitment to environmental sustainability credible. The corporate governance code that touches on environmental sustainability in Nigeria is the "*Sustainability Disclosure Guidelines*" issued by the Nigerian Securities & Exchange Commission [65]. However, these codes are largely prescriptive and declaratory. Therefore, a firm's affirmative action to environmental sustainability is entirely "in the eyes of the beholder." In the absence of acceptable metrics, arguments to being environmentally sustainable can almost always be contrived by any organization to justify its position. There is a need to compel organizations to go beyond mere disclosure just to fulfill regulatory requirements to concrete and measurable metrics that can be tracked and assessed.

2. There may be a need for regulators in Nigeria to come up with legislation that will require manufacturing firms in Nigeria to commit more of their profit after tax (PAT) in activities that promote social and environmental sustainability. The extant regulations on corporate governance codes in Nigeria merely require firms to make declarations or policy enunciation on commitments to environmental sustainability with no quantifiable way of measuring these policy enunciations and commitments. The construct 17-TBL adoption matrix proposed in the study could lead the way toward quantifying and measuring a firm's commitments to social and environmental sustainability.

3. Post-COVID-19, manufacturing firms in Nigeria should on their own (without regulatory prompting) make a paradigm shift on the way they approach the issue of social and environmental sustainability. The pandemic has shown that greater attention will be paid by various stakeholders on how firm activities

contribute to social and environmental sustainability going forward. Rather than making declarations and regulatory-induced commitments to environmental sustainability in order to "fulfill all righteousness," more concrete actions will be required to walk the talk.

4. Civic societies, social advocates, and nonstate actors should henceforth engage more actively with businesses to show greater commitment on issues of social and environmental sustainability. The general public should be sensitized to show greater support to businesses that are committed to social and environmental-friendly practices by way of patronage and shunning those businesses that care less about social and environmental sustainability.

Appendix

A. Financial performance metrics of selected manufacturing firms in Nigeria (2014–2018)

Year	PAT (=N=)	EXP on CSR (=N=)	% of PAT on CSR
Berger Paints Nigeria Plc			
2014	251,346,022	287,934	0.114556816
2015	248,805,122	393,250	0.158055428
2016	224,007,344	934,600	0.417218464
2017	246,276,146	1,419,464	0.576370884
2018	320,509,108	923,012	0.287983081
Total	**1,290,943,742**	**3958,260**	**0.306617544**
Beta Glass Nigeria Plc			
2014	2,390,223,001	9,231,333	0.386212207
2015	1,991,127,002	10,675,000	0.536128534
2016	3,799,393,042	10,300,000	0.271095933
2017	3,115,142,102	10,738,001	0.344703408
2018	4,304,122,005	10,998,333	0.255530233
Total	**15,600,007,152**	**51,942,667**	**0.332965661**
Honeywell Flour Nigeria Plc			
2014	3,351,546,003	7,681,658	0.229197450
2015	1,120,267,005	7,416,845	0.662060470
2016	−3,023,852,101	11,707,774	−0.387180775
2017	4,304,955,112	20,901,974	0.485532914
2018	4,426,978,003	15,263,699	0.344788228
Total	**10,179,894,022**	**62,971,950**	**0.618591411**
Larfarge Nigeria Plc			
2014	34,385,275,000	259,820,450	0.755615449
2015	29,657,773,005	604,245,559	2.037393566

Year	PAT (=N=)	EXP on CSR (=N=)	% of PAT on CSR
2016	16,898,781,100	748,346,711	4.428406444
2017	−34,601,409,220	661,627,952	−1.912141635
2018	−8,801,726,090	868,878,089	−9.871678352
Total	**37,538,693,795**	**3,142,918,761**	**8.372477685**
May & Baker Nigeria Plc			
2014	63,340,000	0	0
2015	68,033,302	0	0
2016	−48,712,022	0	0
2017	357,181,099	5943	1.66406705
2018	342,686,021	4687	1.36795046
Total	**782,528,400**	**10,631**	**1.35860986**
	Unilever Nigeria Plc		
2014	2,412,343,003	32,864,545	1.362349590
2015	1,192,366,122	212,066,003	17.78530932
2016	3,071,885,200	18,786,715	0.611569566
2017	7,450,085,021	18,675,960	0.250681166
2018	10,552,140,090	43,456,134	0.411822944
Total	**24,678,819,436**	**325,849,357**	**1.320360392**
Cadbury Nigeria Plc			
2014	2,137,319,000	8,100,000	0.378979461
2015	1,153,295,285	6,646,267	0.576284936
2016	−296,403,003	5,799,578	−1.956652916
2017	299,998,042	7,696,543	2.565531078
2018	823,085,420	4,118,284	0.500347096
Total	**4,117,294,744**	**32,360,672**	**0.785969284**
Guinness Nigeria Plc			
2014	9,495,530,402	11,406,028	0.120119967
2015	7,794,899,102	11,202,005	0.143709429
2016	−2,015,886,002	67,985,102	−3.372467587
2017	1,923,720,108	11,775,085	0.612099699
2018	6,717,605,123	11,775,280	0.175289851
Total	**23,915,868,733**	**114,143,500**	**0.477270975**
Nestle Nigeria Plc			
2014	22,235,640,008	45,547,432	0.204839762
2015	23,736,777,123	47,191,240	0.198810646
2016	7,924,968,120	8,778,000	0.110763853
2017	33,723,730,004	2,088,001	0.006191489
2018	43,008,026,108	33,965,020	0.078973678
Total	**130,629,141,363**	**137,569,693**	**0.105313173**

B. Seventeen (17) indicators on the sustainability reporting and triple bottom line (TBL) framework

S/no	Indicator	Rank*
1.	Corporate policy and concrete investment on global warming, pollution and deforestation	0–2
2.	Corporate policy and concrete investment on global security, terrorism and armed conflicts	0–2
3.	Corporate policy and concrete investment on poverty reduction and financial inclusion	0–2
4.	Corporate policy and concrete investment on global fight against hunger and mal-nutrition	0–2
5.	Corporate policy and concrete investment on global fight against racism	0–2
6.	Corporate policy and concrete investment against all forms of discrimination – racial, sexual, religion, creed, etc.	0–2
7.	Corporate policy and concrete investment on use of raw materials that are environmentally friendly such as fresh natural and/or organic ingredients	0–2
8.	Corporate policy and concrete investment on social value and national orientation	0–2
9.	Corporate policy and concrete investment to charity and donations to the less privileged members of the global community	0–2
10.	Corporate policy and concrete investment on water related issues	0–2
11.	Corporate policy and concrete investment on women empowerment and girl-child education	0–2
12.	Corporate policy and concrete investment to disaster assistance to victims and humanitarian reliefs	0–2
13.	Corporate policy and concrete investment to reduction in carbon emission	0–2
14.	Corporate policy and concrete investment to improved energy efficiency in manufacturing and organizational process	0–2
15.	Corporate policy and concrete investment on increasing use of renewable energy, deploying more energy-efficient technologies and closely monitoring emission from all activities	0–2
16.	Corporate policy and concrete investment towards the physically challenged members of the community	0–2
17.	Corporate policy and concrete investment on equal employment opportunity for male and female	0–2
	Maximum attainable mark	**34 (scaled to 100)**

**Assign 1 where there is policy framework but no concrete action, 2 where both exist and 0 where none exists.*

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Section 3

Corporate Governance and the Firm

Chapter 5

Corporate Governance and Reporting in Contexts of Social Justice and Equity, Deconstructing the Case of Historically Disadvantaged Universities in South Africa

Valindawo Valile M. Dwayi

> *"Human society has not developed in accordance with a prearranged plan, but empirically, in the course of a long, complicated and contradictory struggle".*
> *Trotsky, 1986.*

Abstract

Historically disadvantaged universities in South Africa seem to grapple with corporate governance reporting issues, which continue to engender a state of perpetual crisis for them. In response, the National Department of Higher Education and Training has had to come up with interventions such as replacing university councils by administration regimes. The objective of this study was to examine and critique the underlying conditions that allow for the governance crisis to continue unabated while the government interventions seem to be in place. I adopted a mixed method approach to structure the study coherently and logically. Data sources were predominantly institutional reports about the selected cases, which remain as public records. By employing a critical realist lens and its positions about deep ontology, stratified reality, emergence and multi-causation, I could deconstruct the concept of corporate governance as generally written about in the mainstream literature. Results suggest that the source of the crisis derives from the complexity about corporate governance and reporting in relation to not only roles and responsibilities but also in terms of the ideas, beliefs, and values thereof, which therefore constitute the contradictions of position and practice. The discussion highlights the value of understanding transformative agency as the practical alternative to what should be advances in corporate governance and reporting.

Keywords: King IV report, social justice and equity, transformative agency, leadership Management and Governance, historically disadvantaged universities

1. Introduction

This article begins by exploring the construct of corporate governance as it is beginning to gain traction in the transformation project in South Africa post-constitutional democracy. While corporate governance takes flack within the debates about the managerialist practices, which are considered foreign in university leadership, management and governance, its value becomes apparent when the logic of university and its inherent weaknesses are laid bare against the perpetual crisis that the sector continues to experience. The argument that I advance in this article is that the conceptualization of corporate governance and reporting (CGR) ought to embrace the alternatives to what seems to be the mainstream narratives thereof if this concept is to remain context-based and culturally relevant. Such alternative understandings should include a concern with the mechanisms that seem to generate what is observable and experienced as governance crisis. It should focus on the underlying conditions for corporate governance and reporting if sustainable solutions are to be found about the enduring dysfunctional institutional cultures. The reality about the current practices is when the mainstream theories might be complicit in perpetuating structural disadvantage. This is the case when the claims about the KIV Code of Corporate Governance mask the actual reality due to de-ontological positions and self-referential explanations about the subject. It is therefore based on this argument that I would further claim that, only when drawing from the powerful theories about CGR that we might be able to have a better perspective about the present developments and in ways that the future practices can be more transformative than reproductive. Such theories ought to be able to resolve the CGR complexity. The failure to thinking in terms of the latter will inadvertently reinforce the current situation in the following three mutually inclusive ways:

- The default position of higher education, which can be a disjuncture between its espoused value for the public good and the values of use. This is normally the case when CGR practices can inadvertently promote systems of domination and control.

- The privileged position about the knowledge of CGR, which can be disadvantageous about the Other. This is normally the case when some forms of knowledge about CGR can be engaged in ways that are hegemonic about the Other; and

- The faulty consciousness on the part of the main actors in management, leadership and governance practices and systems, which need to emerge, as powerful knowledge, at the level of corporate governance, and further about the idea of university education as socially responsive and progressive institution.

In the rest of this Chapter, I pursue this argument by discussing corporate governance and leadership practices as the matrix of power, which engender more of the continuities than the discontinuities from the old regimes of order and of truth. Such a discussion seeks to explain how such practices derive from the de-ontological positions and self-referential explanations. Second, I introduce the realist social framework to demonstrate how deep ontology and the value of a corporate governance as relations of power and knowledge offer a powerful explanation about corporate governance and reporting. Third, I draw on the realist framework to analyze corporate governance and reporting practices as cited from few selected cases. Such an analysis therefore takes a critical discourse approach whereby both structural systems and cultural systems are delineated as the generative mechanisms for the reproductive outcomes. Fourth and finally, the discussion highlights the value of understanding transformative agency as the practical alternative to what should be advances in corporate governance and reporting.

2. The matrix of power: continuities and/or discontinuities from the old regimes of order and of truth

One of the enduring legacies of the racist apartheid system in South Africa, from which the university sector is a constituent part, is the question of the so-called historically black universities (HBU) or historically disadvantaged institutions (HDI) (these two terms are used interchangeably in this paper). This notion of blackness or disadvantage reflects how the present is constituted from power relations and materialist conditions as conditioned from the past regimes of order and of truth. Also, the transformation project in South Africa is documented in literature, such a university education category is part of a history, which was based on the racist apartheid system, whereby access to university education was regulated according to race and class. Such structural arrangements would promote systems that dispense power and privilege for some and not the Other. Such a history had such enduring effects even post democracy. For example, although the transformation of higher education and training in South Africa (HETSA) was envisaged into an integrated system and its enactment further well planned [1]. However, such plans seem to unfold in very peculiar circumstances for HBUs or HDIs. Convincing arguments are made that such proposals are still greatly conditioned in ways that effectively maintain a three-band structure, with the first- and highest-level band of universities predominantly representing the previously white and historically advantaged institutions [2]. Such a picture is also evidenced according to their apparent good performance profiles [3]. The last and lowest band is reflecting the relatively poor performance profiles coupled with enduring crisis, which are quite disruptive of the academic program almost annually.

That it is from this third lower band that most historically black universities tend to be represented, therefore, indicates what can be argued as the continuities from the old regimes of power and of truth. It, thus, illustrates the challenges of the transformation project in general and the governance challenges, which remain so crystallized despite almost three decades into constitutional democracy. In this sense, the transformation project, as the mechanism for change, is conditioned in the context of the old regimes of power, which continue to privilege certain forms of university education in socially exclusive ways for the Other. Therefore, the assumed trajectories about HETSA transformation remains the critical question about the present CGR systems and practices as continuities or discontinuities, the possible advances or stagnation from the old regimes of order and of truth. While the KIV Codes/Report was designed to deal with the previous regimes of order post democracy, such a project would become challenging as the dimensions about the regimes of truth in politics of being and knowledge.

2.1 King IV code of corporate governance and reporting

The conditions about the establishment of the King IV Report are well documented in literature (i.e., "For example, see [4–7]".). Such developments in the body of knowledge are responsive to how corporate governance is regulated in South Africa per the legislative framework [8]. The essence about KIV Report, as emerging from the previous versions of K1 to KIII, elaborated on outcomes of the service, the quality of the service as a fiduciary duty. In this way, the focus on quality in terms of the KIV version would no longer be about outputs, which was the purpose of KIII in relation to the three aspects of the inputs-process-outputs model. This point is important to distinguish, as general literature tends to conflate outputs with outcomes as the performance measures in the efficiency-effectiveness interplays, that is, in doing right the right things. In terms of the mainstream literature about transformation of university education, such developments could be located within the bigger debates about institutional autonomy and public accountability. Post the Millennium Development Goals, such developments as the King IV Report could also be understood in relation to what would be the new phase of the United Nations Sustainable Developmental Goals 2030 (SDG 2030), including the need for explicit monitoring, evaluation, and reporting functions as part of institutional governance (i.e., "For example, see [9]".) Consequently, the King IV Report would provide a paradigm shift in how organizations can be better governed and led.

Therefore, while CGRs are significant in the running of university education, a consideration needs to be made about what the actual character is about the current CGR practices and thus subjecting the systems thereof and their assumed trajectories as to explanatory critiques. As I explain in the rest of this Chapter, the implicit assumptions about CGR as a structural system, while not questionable at the point of a cultural system, they become problematic at the level of human systems. That is, while it would be beyond critique to think about the CGR systems as beliefs, values and propositions about the idea of a university, the challenge begins when such beliefs are enacted by means of agency. This could therefore be understood as a unique challenge for the selected HDIs in the context of South Africa, where what seemed to have been espoused as values of use did not necessarily translate into values of use. In order to illustrate this point, in the following subsections, I describe the CGR cases according to the main elements of the KIV Codes, which are as follows:

a. Leadership practices by the governing body, which entails the primary roles and responsibilities (the level of a structural system).

b. The principles embodying the aspirations of the journey towards good corporate governance. Such principles guide on what organizations should strive to achieve by the application of governance practices (the level of a cultural system).

c. Governance outcomes as the benefits that organizations could realize through good governance (the implications of the last to levels as agency).

The following cases reflect what could be understood as the disjuncture between the roles, duties and responsibilities and the ideal outcomes of corporate governance. In the selected cases of four HDIs (I used coding for each case of a university) in South Africa during the period from 2018 to 2020, there was compelling evidence about the extent to which members of university education leadership, management and governance could not adhere to the principles of ethical culture, good performance as sustainable value chain, effective control, and trust, good reputation and legitimacy.

2.1.1 KIV code practice: Steers and sets strategic direction

The following case is about HET-C sat against Principles 1 to 3 about the CGR role where ethical culture is espoused as the outcome:

> *"(Mr X) also questioned the manner in which his suspension was handled. He said he was given an hour to respond to the notice of suspension and the chancellor sent two security guards to his home to deliver the suspension letter as the country is on lockdown."*

The same reporting alluded to *"horrifying acts of corruption and fraud in the procurement of security services."*

2.1.2 KIV code practice: Strategy, performance and reporting

Good performance as sustainable value creation, which is anchored on Principles 4 to 5 could be considered antithetical to strategy, performance, and reporting, according to the following evidence about HET-A:

> *"The breakdown of governance, along with maladministration and pervasive corruption".*

> *"There is a pervasive and shameless sense from certain organised formations – including unions, students and service providers – that they have a right to milk the institution dry with impunity. In the process, we have found, the mission of the university gets lost".*

2.1.3 KIV code practice: Overseeing and monitoring

Two HET-D cases reported the disjuncture of overseeing and monitoring, as leadership practices by the governing body, and the effective controls according to Principles 6 to 15.

> "*During the site visits to the campus, splinter groups of students had chased other students away from the meeting, with the help of police and the Vice-Chancellor. The HET-D atmosphere was very polarized, which impeded the quality of the report's observations and recommendations."*

> *"The R11 million which had gone missing within the University system…….the perceived maladministration and mismanagement has increased the mistrust and negative image of the University."*

2.1.4 KIV code practice: Stakeholder relationships ensure accountability and disclosure

Principles 16 and 17 promote trust, good reputation and legitimacy as corporate governance and leadership outcomes. However, the following cases about HET-B created a typical case of espoused values and the values of use.

> "*The general disregard of a fundamental principle of governance……they said the role of a council member, whether internal or external, was to contribute to collective decision-making for the benefit of the university. "It was the disregard of this principle, whether deliberately or in ignorance, individually or in groups, that led to the necessity for ministerial intervention."*

> *"Disturbing signs of a widespread belief that the university is a kind of a cash cow which everyone is entitled to milk for personal benefit."*

2.2 Theorizations of corporate governance and leadership practices in higher education institutions as surface ontology

Prior to the advent of the KIV Code [4], integrated reporting had been the focus of the private sector, (i.e., "For example, see [9, 10]".). Significantly, the King IV Code would be 'more easily applicable to all organizations: public and private, large and small, for-profit and not-for-profit' ([10]: 6). The significance of these codes begun to receive prominence at the international level. Literature (i.e., "For example, see [11, 12]".) refers to the uptake in the Italian and Australian cases respectively. In the South African context, similar developments had been recorded about the history and benefits of the King IV Report [13], where arguments are made for the principle, whereby the boards should appreciate that strategy, risk, performance and sustainability are inseparable.

However, about these compelling cases, as outlined above, the National Ministry of Higher Education and Training [14] indicated the following situation about CGR in RSA:

a. Fifteen (15) independent assessors had been appointed since 1998.

b. The assessments revealed serious challenges with governance, and management at universities that destabilize the effective functioning of the institutions.

c. In the majority (11/eleven) of these, the results were dissolution of council.

d. In four (4) universities, investigations were conducted more than once.

Therefore, the practices, as alluded to the four selected universities and over 2018 to 2020 in South Africa, point to the challenges about corporate governance and reporting as continuities, instead of the discontinuities, from the old regimes of order and of truth, given the history of South Africa and its racist Apartheid system. As I argue in the rest of the chapter, such cases are masked in de-ontological positions and self-referential explanations thereof. What ought to be advances in CGR practices, and therefore in how such practices can be theorized, is when what seemed to be the actual values than the espoused would be a question about the complex university education context in South Africa and the expressively veracious consideration about the cases of HDIs. It seems that this category of the university sector is "hankering to be different or new" post constitutional democracy. Such efforts remain like "tinkering on the edges about the idea of a university as the public good, and thus rendering CGR practices as continuities from the old regimes of order and of truth.

There seemed to be compelling cases about the actual choices and projects by the incumbents (Council members), which then perpetuate the social ills of disadvantage, exclusion and marginalization about the Other (the community which should benefit from these universities, yet they cannot be due to the seemingly forms of kleptocracy in the high offices of the university). The unfortunate picture here is that all this seemed to take place despite what had been extensively written about CGR from the mainstream theories. Therefore, with the latter point as granted, such would be the case of when CGR, as a social phenomenon, needs a powerful theory because the present, while normal, seems to have normalized as part of heavily reliance on what appears as common sense knowledge. Such forms of knowledge preoccupy themselves with what works and what does not about CGR practices, while the actual scholarship of engagement about CGR should be about the conditions that constrain or enable the practices.

The state of CGR for the cases of HET by 2019 indicated evidence of the reproductive instead of the transformative mechanisms [15] as implicit about the nature of corporate governance in the selected cases. They constituted a network of outcomes, which are the antitheses of what corporate governance ought to be but are reproductive of the state of social injustice and inequities that the beneficiaries of university of higher education seem to continue to be subjected to. To arrive at such observations, one had to make inferences about the mechanisms that seemed to generate such a situation in contexts of assumed corporate governance as the ideal of King IV versus the actual as evidenced by the findings.

2.3 The realist social framework for analysis of corporate governance and reporting

The category of HBUs or HDIs, as briefly alluded to in Section 2.1, happen to be in what used to be Bantustans or areas which used to be "black reserves", according to the old the racist apartheid system and its spatial planning policies. Theories who draw on critical realism, as a philosophy, namely, [16] argue that such a history constitute the "conditioned state" about the present, which is inherited not because of one's making or choices. Such theories further explain why such a state needs to be understood in terms of the three elements of structure, culture and agency, which, while mutually constitutive, need to be treated as analytically distinct. Only when such a conditioned state can be clearly delineated as relations of structure and agency and further as culture and agency, that and the social scientist can be able to understand the planned outcomes, which can either be transformative or reproductive, or the variations of these, about the conditioned state, depending on the mechanisms thereof as the process of socio-cultural and social interactions. Therefore, the process of refining and developing 'the transformative mechanisms' for what corporate governance should entail being reflective about the logic of university education in contexts of social justice and equity. While such a reflective process is situated in the main debates and conversations about institutional autonomy and public accountability, such debates are themselves conditional on the CGR contexts as evidenced in this paper. The process itself is made quite significant, since both institutional autonomy and accountability are, ironically, enshrined in the world celebrated Constitution of South Africa and its Bill of Rights.

For the purposes of the argument in this chapter, (**Figure 1**) portrays how the realist social theory, as an explanatory program, allows for the CGR deconstruction in ways that transformative agency can be a subject of emergence. CGR takes three elements of the social world as relations of structural system (SS), of a cultural system (CS) and of a human system (HS). It is important to note that, according to [16], what appears as structure, culture and agency operates at the level of systems (each of the Structure and Culture assume the macro level, which are about structural arrangement and logical connection, respectively, while the Agency acts back on both at micro level). Therefore, SS means leadership by the governing body, corporate governance roles, duties and responsibilities, for the assumed outcomes, and based on the declared principles of corporate governance as its guidelines, the aspirations, and benefits to the organization. CGR as CS refers to the knowledge systems or discursive resources that the incumbents might be drawing on in abiding by, or not of the CGR principles. In both cases of SS and CS is therefore the relative weight of Agency, which, by acting back at the micro level, might constitute either the embodied (the right actions about corporate governance) or the opposite (the disembodied selves). In all these accounts are therefore the implied assumptions about each of these elements of CGR as a social world,

a. That CGR practices at the level of a structural system (roles, duties and responsibility) is the proxy for the actual outcomes. The crisis as indicated in Section 2.1 confirms what could be the danger of such a logic.

b. That CGR practices at the level of a cultural system (beliefs, ideas and propositions) is a value free exercise, and is thus apolitical, asocial and neutral.

c. That CGR practices at the level of the human system (action or non-action) means that the incumbents have adequate agency to act according to the

<table>
<tr><td>Domains of reality from a critical realist stance , (Roy Bhaskar, 1998; 2008)</td><td colspan="3">A map of Corporate Governance and Reporting from a social realist stance (Margaret Archer, 1996; 2007)</td></tr>
<tr><td>Empirical Level: Powers are perceived and experienced</td><td colspan="3">Corporate governance and reporting is experienced and observed in particular ways which constitute either systems of domination and control or of social justice and equity and/or the variations of each.</td></tr>
<tr><td>Actual Level: powers, though actualized (and thus experienced and observed at level above), may not be felt</td><td colspan="3">Corporate governance and reporting takes place as decision making events, processes and the emergent patterns and trends thereof</td></tr>
<tr><td rowspan="2">Real Level: generative powers are possessed, may not be actualised (as events and processes, and further as experienced and observed)</td><td>Structural Arrangements : Corporate governance and reporting roles, duties and responsibilities as regulated by the establishment of University Councils</td><td>Cultural Registers: Corporate governance and reporting ideas, beliefs, values and norms, namely, discourses of social justice and equity, or of economic rationality and neoliberal thinking, and/or the variations of each</td><td>Human Systems : Enactment of both the structural arrangement and also per the cultural registers: Council members goals, intentions; choices and projects/decision making; interests; desires about corporate governance and reporting</td></tr>
<tr><td>STRUCTURAL EMERGENT POWERS/PROPERTIES (SEPs): powers & tendencies to determine causal powers</td><td>CULTURAL EMERGENT POWERS/PROPERTIES (CEPs): discourses (as representations of attitudes and values which permeate everyday life)</td><td>AGENCY/PERSONAL EMERGENT POWERS/PROPERTIES (PEPs): (reflexivity & autonomy of council members as individuals, actors and corporate)</td></tr>
</table>

Figure 1.
The domains and social reality of corporate governance and reporting as mapping of Archer, 1996; 2007 over Bhaskar,1998; 2008, as created by the author.

principles. The outcomes as indicated in Section 2.1 attest to the folly of such a logic, further to the notions of CGR as a cultural system and as a structural system.

In the next section, I, therefore, pursue this realist explanatory approach by discussing the silences and superficiality of CGR beyond the level of inductive and deductive logic, but at the level of abductive and retroductive logic. The latter refers to the application of critical discourse analysis about CGR practices as the subject of political interests, the materialist interests, and the related knowledge dimensions thereof in addition to how the latter two are taken upon as agency. The main claim about such an exercise is that the CGR practices, when they are subjected to a realist social program critique, then surface the discourses of use, which appears to be antithetical to the ideal of the KIV Code.

2.4 Deconstruction: The King IV code of corporate governance and reporting

Building on the growing body of knowledge about CGR should be the subject of a critique about the complexity of power relations in politics of knowledge and of being in the HETSA sector in general and in the case of HDIs. Such a project should not only be about the significance of transformation but the character of the project itself which seems to be constrained in the assumed trajectories and, as such, indicating interesting dynamics about CGR as the interplays of structure, culture and agency. This is therefore the reason for HDI cases in South Africa requiring prominence as the subject of explanatory critique in general and the cases of corporate governance crisis. Otherwise, the failure to embark on such scholarly projects would be travesty of justice to most communities who still reside in the communities where these universities are located, which is not because of a choice of their own but as part of the legacy of the racist apartheid system of South Africa.

When such a system continues to be deliberately dehumanizing and brutalizing for those who should be on the receiving end about the idea of university as the public good, as evidenced in the introductory part of this Section, that calls for enhanced scholarship of engagement about such situations and how such engagement needs to be a reflexive-dialectical process, which can allow for transformative agency to emerge. In the subsequent discussion, I pursue the disjuncture between the CGR practices and the reported outcomes to possible identify the potential challenges and opportunities.

2.4.1 Deconstruction of the KIV CGR practices: What do they mean in critical realist terms?

Further to the profile of the HDIs as outlined in Section 2.1. was the challenge of their unique history and social relations. The old racist apartheid system of South Africa preconditioned such universities by means of special planning policies that would categorize such universities as solely meant for black and socio-economically marginalized communities. A deconstruction effort for the enduring crisis of corporate governance would therefore have to account for how such a crisis derives from the enduring systems of power as domination and control and further to how such systems could be justified as knowledge. A two-phase strategy about critical discourse analysis therefore is the basis on how I describe the enduring crisis of CGR in the selected cases of HDIs in South Africa.

The first phase would focus on the first two levels, the domains of events and processes and additionally experiences and observations. Analysis at this level would therefore focus on texts and how such texts can be deconstructed from the de-ontological positions and self-referential explanations about the crisis. Such cases take the notion of practice and narratives as mutually constitutive but become problematic in two ways. First, as a preoccupation with what works and does not work about corporate governance, which therefore does not go far enough in accounting for the conditions that enable or constrain for such events or processes. Further, such explanations are self-referential in the sense that they remain self-contained about the own mainstream narratives about corporate governance as a practice, instead of allowing for what could be alternative explanations. Therefore, both the challenge of surface or de-ontology and self-referencing need to be deconstructed by means of engaging the practices at the level of discourses [24, 25] if accurate interpretations can be made in ways that literacy about corporate governance can be better promoted. The second phase would therefore focus on the realist domain (3rd level). The subsequent sections describe how critical discourse analysis was applied as a form of a deconstruction process before the developed insights were discussed.

Therefore, in line with this critical realist viewpoint, the first two levels of actual and empirical domains (**Figure 1**) would not be helpful enough in accounting for how the crisis occurs and is further experienced and observed. Such levels are easily available in the form of hard data as outlined in Section 2.1 as the contradictions of the ideal practices and outcomes in corporate governance and leadership. In addition to what could be inductive and deductive logics about such a crisis, the critical realist analysis would have to draw both on the abductive logic (non-self-referential explanations) and on the retroductive logic (beyond the de-ontological positions) to account for the mechanisms which generated such a crisis. Not only the silences and superficiality about the crisis in corporate governance practices, but the analysis for the states and properties about such practices, would therefore have to be identified if credible explanations could be provided beyond the de-ontological positions and self-explanations about such practices.

In this sense, recognizing the structural systems, in the form of roles, duties and responsibilities, should be enabling and empowering instead of recognizing the systems of domination and control. Sense and meaning making, on the other hand, takes the cultural element whereby the logic about corporate governance should be inherent in the fiduciary roles and responsibilities as truth about and the emancipatory project for the other. This cultural element is what makes the logic of university education to be the common and the public good. This is what ought to be the intrinsic value of what university education, while the enactment of both the structural and cultural systems is what ought to count as a human system, and therefore as agency. Therefore, these are the issues that I sought to explore in the deconstruction of the King IV Report in the case of the selected HDIs in South Africa.

2.4.2 Deconstruction for de-ontological positions and self-referential explanations

The governance crisis [14] corroborates the previous studies [9–13]. For me, the latter cases question why in post democracy some institutions in the HETSA sector still experience continuities about corporate governance and leadership practices from the old regimes of order and truth. Albert Einstein defines insanity as doing the same thing repeatedly and expecting different results. The crisis as outlined in Section 2.1 seems to frustrate what should be the recent advances in CGR as the codes are espousing. As it is demonstrated in **Figure 1**, not only such cases reflect the domain of the actual but also the domain of the empirical about how CGR is observed and experienced both by the actors (CGR incumbents and the National Ministry of Higher Education and Training) and those researching about it. Such a CGR data attests to this situation as the silences and superficiality about CGR from a critical realist perspective. Because such data makes for the kind of knowledge which remains de-ontological and self-referential, it can thus be declared as common-sense knowledge. As such, the narratives about such practices, as evidenced in the Administrator Reports, constitute the contradictions of CGR practices, according to the KIV Report principles.

While this analysis acknowledges all the antecedent literatures about corporate governance and leadership practices, the explanatory critiques thereof constitute the advances in such a body of knowledge. A deconstruction process does not only seek to engage the current literatures but also offer potential solutions to the main challenge of de-ontological positions and self-referential explanations. Dealing with the challenge of ontological collapse about the current body of knowledge means providing the explanatory account about the states and properties of CGR as the conditions that enable/constrain CGR practices for the ideal of transformative practices than the currently reproductive. The explanatory critique about CGR practices is therefore about avoiding the ontological collapse in two ways—first, as reification (a blind concern with what works and what does not instead of an examination of the conditions or properties of structure, culture and agency) and second, as the conflation of position and practice about the incumbents in the CGR practices.

3. Corporate governance and leadership and the contradictions of position and practice

The two-part deconstruction process, as outlined above, indicates corporate governance as the contradictions of position and practice. The challenges of policy-practice dissonance are when the government's attempts for transformation might be regarded as the proxy for the actual change than the means to an end. At a micro level, such cases as reported here, are clear cases about when the dangers of the discourse of economic rationality and its neoliberal thinking can play out as pillage of public resources, which cannot be promoted in consideration of corporate governance as an ethical practice. Therefore, the realist ontology problematizes steering and strategic direction as leadership role and responsibilities (doing the right things right), for example, when such a structural system is posited as the proxy for trust, good reputation and legitimacy, as the actual outcomes. At the point of cultural system, the same roles and responsibilities would be a subject of critique when corporate governance and leadership are understood and explained as value free, apolitical, asocial and neutral. The same realist argument about the Council's roles and responsibilities would also apply in all other cases about leadership roles and responsibilities, when those might be seen as the panacea for ethical controls. The same would apply at the point of a cultural system and the value-laden approach to the notion of corporate governance.

The cases as reported in this chapter indicate that, while the regulation of the governance roles is necessary, are such a regulation is not adequate for the actual practice to take place. This then becomes a realist question of what structural arrangements can mean in practice. That is, when such arrangements, as a structural system can be completely different from how such systems can be enacted. This is normally the case when the incoherence manifests as dissonances between the workings of power and the knowledge thereof and in ways that the discrepancies might have to be resolved in ways that are sustainably impactful. The cases, as reported in this chapter, indicate how corporate governance, although espoused as based on CGR principles, can also result in the opposite. Such is also the case of a social practice, which, with its beliefs, ideas and values being mutually constitutive, can be contested in actual practice. In the following paragraphs, I try to illustrate this point.

In yet another case of corporate governance and value systems, the discussions in the national parliament surfaced the challenge of treating the logic of university education and corporate governance in conflated ways. Such a case played out as political posturing, when some members of a political party could call for closure of these 'rural based universities.' Such a call invited objections from the other members of a political party. The next extract indicates such a case, when the role of university needs to be treated as analytically distinct from that of the leadership, management and governance systems thereof.

> "*Ms X reiterated the concern over degrees being sold and the lack of focus on the consequences that perpetrators had to face. She expressed her agreement with Mr Z in the need for immediate intervention at HET-D. Ms X agreed with Mr Z that the university could benefit the development of rural communities and young people and so should not be closed but improved.*"

The second case about the dysfunctional cultural system of corporate governance manifested when there seemed to be evidence of hegemonic tendencies about the other.

> *HET-C: "(Mr X) also questioned the manner in which his suspension was handled. He said he was given an hour to respond to the notice of suspension and the chancellor sent two security guards to his home to deliver the suspension letter as the country is on lockdown."*

> **HET-D:** "*During the site visits to the campus, splinter groups of students had chased other students away from the meeting, with the help of police and the Vice-Chancellor. The HET-D atmosphere was very polarized, which impeded the quality of the report's observations and recommendations.*"

Such tendencies manifest when they seem to perpetuate social and historical disadvantage, exclusion and marginalization, which was the main feature of the old racist apartheid system. Such notions of corporate governance need to be problematized as being misrecognition of the other, and further as being reductionist about the practice itself, when the alternative could be in consideration of context and cultural relevance in complex and open social systems. Such systems, therefore, call for understanding of corporate governance, and therefore managerialism, as engaged, instead of assuming it as a proxy for change, or as a value-free form of change.

3.1 Transformative agency: deconstruction for discourses of use

The domain of the real, and its claim for retroduction, points to the understanding of how CGR practices can present dilemma to the incumbents as the exercise of agency and what can be done about it. While CGR is regulated, it also takes the variation route at the point of human systems, thus indicating what could be the structural conditions or the generative mechanisms for such events. To drive home the point about the value of transformative agency, the following observation is quite instructive:

> *'Powerholders and superordinate groups have both vested interests and the institutional and cultural capacities to disseminate their own self-justificatory beliefs across the rest of society, to misinterpret inegalitarian social relations as in the interests of everyone, or to justify publicly their own oppressive or exploitative institutions in the eyes of the downtrodden or subordinate.' ([17]: 33).*

The challenge about the latter statement is whether the people in historically black universities, in contexts of structural disadvantage in South Africa, have the voice which is loud enough for their self-empowerment and emancipation. Such a question would also relate to whether such a voice can be organized in ways that the power thereof can be more elaborative, thus leading to required conceptual or competence shifts. The potential resolution point about the current crisis of corporate governance and leadership should be the enhancement of transformative Agency by means of making loud the voice for social justice and equity when it should matter most. One could make the implicit assumptions that the Council members, as alluded to in Section 2.1, were well inducted to the workings of KIV Codes, and as such, such a process involved a plethora of workshops and conferences (the domain of the actual as reinforcing the quality of decision making in the CGR functions). However, the enduring crisis points to what could be the generative mechanisms for what appears as events and processes at the domain of the actual and further to how the latter is observed and experienced at the empirical level.

Therefore, the cases as reported in this chapter indicate that, while University Council membership qualities would be necessary, still they would not be adequate if the role of transformative agency is not made explicit in terms of both the power relations and materialist conditions of corporate governance, on the one hand, and the related beliefs, values and ideas thereof on the other hand. Such cases constitute the invariance or the reproductive state about social injustices despite what corporate governance espouses as institutional cultures that should reflect trust, good reputation and legitimacy. It would therefore be at the level of agency, as human systems, that the practical alternative could constitute the domain for what ought to be the new possibility about the reported crisis [18].

4. The practical alternative towards enhanced transformative agency

Transformative agency is elaborated upon as one major element not only about the corporate governance as structural system but also about the related cultural system thereof. That ought to be about the idea of a university not only as knowledge constitutive but also as the public good. In that regard, corporate governance and leadership entail working with the necessary contradictions. It is about the reflexive-dialectical process, which ought to be about the correction of the idea of a Corporate Governance where such an idea seems to be subjected to conditions of constraints. While university autonomy means the protection of academic freedoms and rights in how the academic enterprise can be led managed and governed, on the one hand, public accountability, on the other hand, thereof means such rights and freedoms are not unmediated, especially in contexts of social equalities and justice. Therefore, based on these profiles, the case of HBU remains the main feature—rather, the unintended consequences of the HETSA transformation project. It is against these observations, therefore, that the contestations about the logic of university education, and therefore about the spaces where corporate governance reporting are applied, need to be seen as discursive spaces that reflect the matrix of power. Therefore, if the idea of a university as a public good is to become a reality for most people in South Africa, who should be concerned about the current corporate governance crisis in HDIs and what kind of projects and practices are required thereof? It should be considered hypocritical and therefore objectionable and rejected that HDIs would have Council members and yet their powers cannot be expressed as empowering knowledge systems and in ways which can promote social justice and equity for people who, by a choice not of their own, are still locked up in the previously disadvantaged backgrounds. Therefore, in the next two points, I illustrate how a refocus on what should be the transformative mechanisms in relations of structure and culture might be useful for resolving the disjuncture of governance purpose and outcomes.

4.1 The reconstructive efforts towards the advances in corporate governance and reporting

Transformative agency in corporate governance shall have been achieved when the corrective action efforts as relations of structure and culture, as discussed in Section 3, are not just being ameliorative about the status quo, as reported in the previous section. Corporate governance and leadership need to be improved in such cases in ways that the university profiles finally reflect the logic of university education as the public good for all. That would be the state, which can finally reflect a network of outcomes, which position corporate governance as the enabling system for the ideal of social justice and equity. Therefore, the practical alternative to the crisis as outlined in Section 2 would mean concealing the current constraints to structure, and to culture and therefore in ways that can enhance agency. To be more exact, this would also mean concealing constraints to the current corporate governance practices. Such an effort would have to try to disentangle the structure as roles, duties and responsibilities about governance from the enactment thereof, that is, as agency, and further the related culture as beliefs, values, and ideas about governance from agency. The results of the latter should be improved knowledge about corporate governance in context and culturally relevant ways. The following observation is quite suggestive of that approach.

> *'the social struggles of the oppressed and exploited against such structures and their beneficiaries are morally right; they are objectively, ethico-political 'right-action.' ([17]: 36).*

The HETSA cases as alluded here are calling for a time and spaces to reflect deeply on the constitutional values and how those values can be re-imagined as an idea of a university for a world beyond the present.

(**Figure 2**) portrays how the ideal about the CGR actors, in cases as described in Section 2.1, would have to be a subject of the reflexive-dialectical process, which would entail the socio-cultural conditioning of groups. Corporate governance and leadership practices take place as the idea of being in time and space. Such practices are lived by means of the dimensions about such states as criticality, reflexivity and for praxis. The matter of time as state of conditioning can be deconstructed as the habitus, as the pure conditioning to agency, which would have to call for the new processes as morphogenesis ([16]: 276) explains that "the point about morphogenesis is to clearly delineate who is who in these interplays and who does what in the process of social transformation'. An issue would be the CGR cases as the structure-agency conditioning as the habitus-reflexivity interface. Such cases reflect the state of morphostasis, the reproductive outcomes, the Habit-Reflexivity interface as predominant habitual action and low reflexivity (cultural and structural conditioning). That would therefore point to the need for the kinds of CGR practices which can allow for enhanced reflexivity in ways that, through morphogenesis, the cultural and structural domains (**Figure 1**) cause elaboration and overtime.

Therefore, being reflexively dialectical about corporate governance would have to entail a process that could allow for transformative agency to emerge [19]. Transformative agency in cases of a crisis of corporate governance cases should mean disentangling human action from the espoused duties, roles and responsibilities. It also means dislocating human action from the espoused ideas, propositions, and values about governance. Such a process of deconstruction allows for understanding the actual nature of contradictions, tensions, inconsistencies and lacks that come about when the structure is conflated with the culture, and further when the agency acting on structure might be conflated with agency acting on the culture. That process ought to involve understanding the practical steps for the incumbents' choices and practices as being in the world of university leadership, management, and governance in contexts of social justice and equity which cannot afford to reflect corruption and malpractices. That would also mean the enactment of KIV principles in ways that, indeed, can promote value creation in historically disadvantaged institutions instead of diminishing the very limited resources in their disposal. For example, the HET-A and HET-D cases, when these institutions had to be subjects of the administration regime more than once post constitutional democracy, were quite illustrative about how government or social science interventions can die in their own tracks.

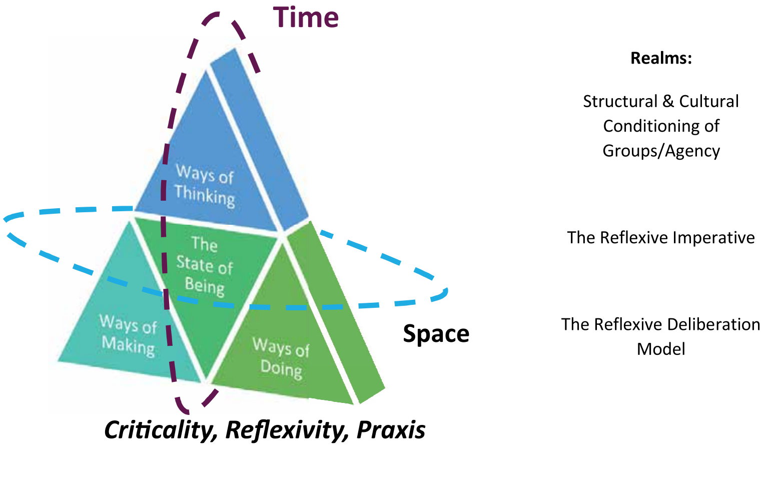

Figure 2.
Dimensions & realms: Corporate governance and reporting in the idea of a university (Dwayi, 2021).

4.2 Reclaiming corporate governance and reporting for the idea of university as the public good

What is suggested in this chapter is the need for further engagement at the level of culture and agency and further through what could be a reflexive dialectical process [20]. Such a strategy can be effective only when there are deliberate and conscious efforts on the part both individual and collective agents to promote and monitor corporate governance systems more as the values in use than the currently espoused. While complexity shall always inform the nature of the world, and thus the potential surprises depending on scale, it becomes the responsibility of CGR scholars to note how the principles of governance, especially in the university education environment, can fail in their own tracks. As I briefly alluded in Section 2 of this chapter, HETSA is still fragmented along power interests and knowledge domains of class, power and privilege almost 30 decades into constitutional democracy. As evidenced in the main thrust of the discussion in this chapter, the HDIs are not only a subject of marginalizing tendencies by the historical systems of domination and control, but members making University Councils in these institutions continue to perpetuate structural disadvantage as double marginalization about the Other.

University education spaces are for the public good and for how such goods can be dispensed for the betterment of all. University Councils cannot afford to appear as dispensing the material good in ways that benefit those who are already positionally advantaged and at the expense of the Other. University education constitutes spaces for Enlightenment Values where the name of the game ought to be for the truth about, and the emancipatory project for, the Other. That then points to how university education, as the potential system of dominance and control, can be engaged as the alternative system in service of the Other. Therefore, deconstruction should be about the potential to address the constraints on human freedom and enabling power in the HDI contexts.

A focus on the structural conditions or the generative mechanisms at the domain of the real would mean being deliberately conscious about the interplays of structure, culture and agency factors in open and complex social systems. This could mean contracting the incumbents (Council Members) in terms of the required knowledge for the CGR and even building capabilities for them to possible have conceptual and competence shifts about the ideal CGR outcomes. Therefore, the practical alternative is possible only when CGR can be understood as analytically distinct in the following three ways:

- As roles and responsibilities which need to be understood and explained as mutually exclusive from the values, beliefs and knowledge systems thereof.

- While the roles cannot be treated as the proxy for the transformative outcomes, the same applies about the CGR cultural dimension, which needs to be understood as contested in power and knowledge dimensions.

- Implied by both is how the roles and responsibilities, and the value systems thereof can then be acted upon as agency. Such agency depends on the structural and cultural conditioning of groups. Therefore, it would be the laziness of an intellectual project to assume that HBUs in general and the case of HDIs are adequately empowered for such agency, given the enduring legacy of settler colonialism and the racist apartheid system which South Africa is so notorious of.

This could be a well-developed program for the duration of the tenure of these members, where the ability to internalize the basic CGR principles seeks to eliminate (contingent contradiction) the current social ills while protecting (the necessary compatibility) the idea of a university. Such a process should entail impact tracking about CGR and for sustainable value creation about the idea of University in the HDI context. For South Africa, the National Democratic Revolution Project in general and the National Development Plan 2030, which need to emerge as the United Nations Sustainable Development Goals 2030, and further as Agenda 2063: The Africa We Want Such projects for value creation are constitutive of the reflexive imperative. The CGR practices, as discourses of use, should entail the enabling system for the university context in the South African context as the culturally relevant and a responsive project for each case of university education. Such a context would need to consider how the HDIs continue to be in perpetual crisis because of history and social relations, which was never of their own making. However, such a history needs to be reimagined and better elaborated on as the expressively veracious considerations where the idea of a university finally constitutes the public good. For the corporate governance and leadership practitioners, the clarion call is for the ability to dispense power and privilege more for the previously disadvantaged than for themselves. For the growing body of knowledge, which is the ambit of scholarship, such an ability means praxis artistry, the ability to ensure the unity of theory and practice in practice.

5. The conclusion

The potential advances in the study of corporate governance and reporting (CGR) practices need to be understood in terms of the contemporary theories of change. Engaging the theories that draw on the realist social theory, which is anchored on realist philosophy about deep ontology and stratified reality, causation and emergence, can delink the political and economic interests about CGR practices. The realist social explanatory program allows for the understanding of structural systems as the interplays with the cultural systems thereof, and how that knowledge can be taken upon as agency. There is a need to understand corporate governance and reporting practices as emerging from the basic and the running thread to what finally becomes a corporate governance and reporting culture. A critique of the practices as alluded to the selected cases of this chapter sheds some light on why and when such corporate governance, while regulated, the crisis persists even against the regular state interventions. The cases of unethical conduct cannot be condoned if the business of university education is about the enlightenment values and their twin friends of truth about, and the emancipation project for, the Other. Such cases are clear evidence about how corporate governance in university education can be constitutive of the unethical culture. Such cases are being about opportunistic about university education transformation, which is therefore, against the ideal for the public and the common good.

As it were, corporate governance in general and the King IV Report is not the panacea for addressing all the social ills that tend to characterize the contexts of enduring social injustice and poverty. Literature on King IV Code of Corporate Governance and Reporting is still in an early stage of development. Furthermore, the HDI cases in South Africa need a particular focus beyond what is currently reported in literature. Therefore, the ideological stance that the actors of corporate governance can draw upon need to be troubled in ways that the practical solutions about the enduring crisis might be better understood and explained. A deconstruction approach is, therefore, suggested for how the relations of structure, culture and agency can be identified and analyzed, and for how understanding the interplays between the three elements in ways that the current crisis can be effectively ameliorated if not completely uprooted, at best. For that to be a practical alternative, only with the kind of transformative results, which promote the socio-structural conditions of justice, fairness, democracy and empathy, that the idea of corporate governance in HDIs might be the actual reality.

The cases as reported in this chapter are not representative of the whole HETSA sector, but of a particular context whose transformation events seem to play out in ways that are quite peculiar about the logic of university education. However, the principles drawn from the analysis and the subsequent discussion might be generalizable to other similar environments. More studies and insights are required about the conditions that seem to remain a constraint in ways that continue to make leadership, management and governance roles susceptible to maladministration practices. The units of analysis thereof are much bigger than the limitations of this chapter. They entail a focus within the institutions themselves, at the interface of national or government macro-politics and the institutional micro-politics, and not to mention the impact of the current era of de-globalization, populism and regionalization. As I demonstrated in this chapter, what is claimed as the absoluteness of the principles of corporate governance shall be more realizable when such principles can be deconstructed in terms of the elements of structure, culture and agency, and where agency must be foregrounded as interacting with both structure and culture in analytically distinct ways. Failure to do that might be the reason for why even after the earlier studies about the administration regimes, corporate governance crisis still exists, and more administration regimes are still appointed in the South-African context.

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Chapter 6

The Impact of the Culture on Corporate Governance (Board Structure) in Jordan Context

Houda Qasim Hardan Aleqedat

Abstract

Corporate governance has become one of the most important issues that concern most investors, shareholders, and decision-makers, as corporate governance has become one of the most important issues that companies are committed to, however, there are still problems related to corporate governance. There is a lack of studies that addressed the relationship between culture and corporate governance particularly, in the Jordan context. The current study covering this issue by investigating the impact of the culture on corporate governance (Board Structure) for the financial sector in Jordan for the period (2013–2018).

The study used the agency theory and Hofstede's cultural dimensions theory as the theoretical framework. The study used different proxies of corporate governance, Board Structure in terms of Board size (BZ), Board independence (BI), and Non- CEO duality (NCEO). To measure the culture the study used the Hofstede cultural dimensions (Power distance index (PDI), Individualism vs. collectivism (IDV), Uncertainty avoidance (UAI), Masculinity vs. femininity (MAS), Long-term orientation vs. short-term orientation (LTO), Indulgence vs. restraint (IND). a multiple regression model has been used to test the developed hypotheses. The findings indicated that there is an impact of culture on corporate governance (Board Structure), this impact is negative and significant. The current study recommends applying managerial implications such as companies should concern with the culture and the local norms when constructing the board or the structure of the company and focusing on the values of the organization since it plays a critical role in shaping the behavior of the individual that affects the culture that could impact the organizational structure, particularly, on the board of directors as the human factor is the essence of culture,. Furthermore, increasing the interest and awareness about the environment when improving company regulations that could help in changing the culture as building a strong culture encourages all employees to perform their roles. In addition, enhancing the corporate governance practices which leads to attracting foreign investors.

Keywords: Hofstede cultural dimensions, Board Structure, Board size, Board independence, Non- CEO duality, Financial companies, Jordan context

1. Introduction

Corporate governance refers to the processes and mechanisms by which the company is managed in order to achieve the interests of the owners, where good governance is an advantage of the company in the business community. Jordan has adopted corporate governance by issuing a guide to the rules of Jordanian corporate governance since 2007, but it is not mandatory. Previous studies related to corporate governance and its relationship to culture have not been addressed much in developing countries: one of the mechanisms of corporate governance is the board of directors which is considered the most important body that implements governance mechanisms to achieve the interests of owners. Where the principles of corporate governance stipulated rules regarding the board of directors such as independence of the board, the separation between the CEO and the chairman, as well as the board size, these rules assistant the members to conduct their activities effectively. Many studies conducted the relationship between culture and corporate governance. In the Jordan context, there are no related studies on this issue. The current study contributes to the literature as a new study conducted to investigate the impact of culture on corporate governance in the Jordan context for the duration (2013–2018). The study used Board Structure as different proxies to measure corporate governance. This study employed the agency theory and Hofstede's cultural dimensions theory. SPSS program has been used to test the developed hypotheses.

Finally, the study covered the main sections: Introduction, Literature review, Methodology, Empirical Results and Discussion, Conclusion, The importance of research for the future, and Recommendations.

1.1 Research problem statement (question)

Culture and corporate governance have been considered an important issue in the literature recently. This study aims to investigate the impact of the culture (CL) on corporate governance in terms of Board structure (BS) in Jordanian companies. It is notable after reviewing the literature that there is a gap regarding this issue in Jordan's context. To fill this gap this study will answer the following question:

Is there is an impact of the culture on corporate governance (Board Structure) in Jordan's context?

1.2 Research significance

The current study tries to investigate the impact of the culture (CL) on corporate governance in terms of Board structure (BS) in Jordanian companies. For this purpose, the study uses the six Hofstede dimensions to measure the culture, namely, Power distance index (PDI), Individualism vs. collectivism (IDV), Uncertainty avoidance (UAI), Masculinity vs. femininity (MAS), Long-term orientation vs. short-term orientation (LTO), Indulgence vs. restraint (IND). To measure corporate governance this study uses different proxies, Board size (BZ); Board independence (BI); Non- CEO duality (NCEO). Using these proxies of Board structure and the six of Hofstede's cultural dimensions will contribute to the literature locally and globally, since this combination of the six dimensions and the board dimensions has not been used together in previous studies.

1.3 Research objectives

The main objective of the study is to investigate the impact of the culture on corporate governance (Board Structure) in Jordan context.

1.4 Research theoretical framework

This paper used the agency theory and Hofstede's cultural dimensions theory as the theoretical framework to investigate the impact of the culture on corporate governance (Board Structure) in Jordan companies. Board structure is the dependent variable, and Hofstede cultural dimensions are the independent variables. **Figure 1** show the conceptual framework of paper.

2. Literature review

Many studies have been conducted on culture and corporate governance and their relationship with performance. While, there is a lack of studies that addressed the relationship between culture and corporate governance particularly, in the Jordan context. Some studies conducted on culture and corporate governance that confirmed that there is a relationship between culture and corporate governance. Where the culture in the country influences corporate governance "in [1]". Furthermore, culture impacts the tools of corporate governance. This is because the culture of the organization is affected decision-makers particularly their values. Thus, this affects corporate governance "in [2]". Empirical studies have been reviewed on this issue. Where the literature indicated that (Licht, Amir) is considered one of the famous authors who conducting many studies on culture, he indicated in his study "in [3]" that it is necessary to pay attention to culture when analyzing the mechanisms of governance in any organization. Where cultures can be compared through it.

With regard to the board of directors, the culture of the country plays a critical role in influencing it, as "in [3]" noted that Western Europe supports gender diversity in the boards of directors. Whereas in developing countries is characterized by a weak control as well as weak governance, which negatively affects foreign investment "in [2]", where investors prefer large firms with strong corporate governance that is that takes into account the culture "in [4]".

2.1 Agency theory

Agency theory suggests that there are conflicts of interest between principal and management. This management conducts the activities on the behalf of the principal. The Agency theory is established to clarify corporate governance and the conflict of interest between the principal and management "in [5]". This theory,

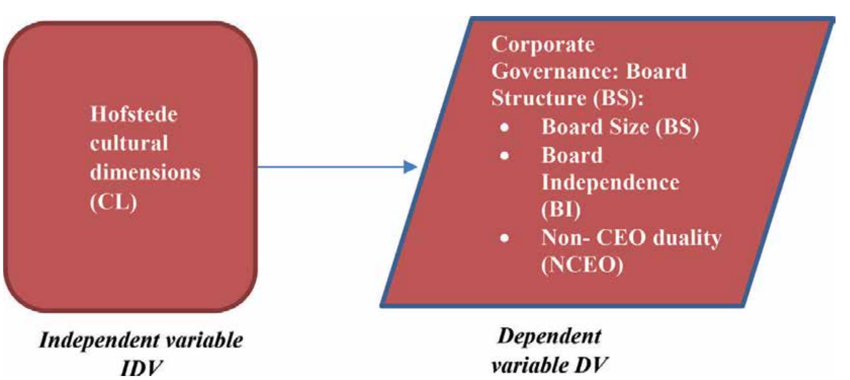

Figure 1.
The conceptual framework of paper.

suggests mechanisms represented in good corporate governance that eliminating the conflict and the Agency's problems "in [6]".

2.2 Hofstede cultural dimensions theory

Hofstede's cultural dimensions theory is developed by Greet Hofstede, it is the structure of the connection between cultures "in [7]". This study employed the Hofstede cultural dimensions CL in terms of (Power distance index (PDI), Individualism vs. collectivism (IDV), Uncertainty avoidance (UAI), Masculinity vs. femininity (MAS), Long-term orientation vs. short-term orientation (LTO), Indulgence vs. restraint (IND) as the (Independent variable).

2.3 Board structure

The literature presented different dimensions to measure corporate governance, one of these dimensions is the board structure, where literature defines the board of directors as a number of members appointed by shareholders to achieve their interests "in [8]". The board of directors is considered a power of the firm "in [3]". Where the board of directors consists of executive members and non-executive members, the non-executive members should be independent. The current study employed the board structure in terms of Board size (BZ), Board independence (BI), and Non- CEO duality (NCEO) as the (dependent variable DV).

2.3.1 Board size (BZ)

The board size is referred to the total number of board members. The literature regarding the board size is mixed, some studies indicated that the Larger boards are not preferred since there are difficulties in the meeting between the members "in [9]". Furthermore, a large board means bad communication and coordination "in [10]". On the other hand, some studies indicated that the large board has experience and knowledge that can be useful in the taking a right decision.

2.3.2 Board independence (BI)

Board independence is considered an important tool of corporate governance that eliminates agency cost. The literature defined the independent members of the board that the members who own a part of the shares of the firms "in [11]". These members are controlling the managers on the behalf of the shareholders that assure that the firm applying good corporate governance "in [12]". Furthermore, the independent members are not tended to achieve their private goals "in [7]". The agency theory advocate that the board of directors should be independent, and prefer the outsider members should be more than rather than the insider, this leads to good controlling "in [9, 13]".

2.3.3 Non-CEO duality (NCEO)

According to the agency theory, the separation between the CEO and the chairman is considered one of the important governance mechanisms, as in the event that these two functions are combined, this will negatively affect the decisions of the board of directors and this weakens the independence of the board, as many studies have shown that the separation enhances corporate governance "in [14–16]".

2.4 The relationship between culture and board structure

Behavioral science theories highlight the role of cultural values and attitudes in shaping board-and-CEO relationships regarding controlling and strategy development. The culture through cultural orientations plays an important role in formulating the board composition. The cultural orientation in the institutional environment in a particular country could be towards a focus on equality by allowing gender diversity on boards, as is the case in Western European countries. In European societies that focus on entrepreneurship, it is characterized by individuality, low uncertainty avoidance, the composition of the board of directors directing to the interest of (external) shareholders by providing more independent members.

Regarding the relationship between culture and board structure, the literature has poor studies regarding this issue. "in [17]" found there is a positive relationship between the outsider member and individualism, uncertainty avoidance, femininity, and power distance, Furthermore, he found that found there is a positive relationship between the combine of the chairman and the CEO and individualism, uncertainty avoidance, and power distance. The following **Table 1** summarize the most of the empirical studies regarding the culture and corporate governance.

Finally, Based on the above, It is notable there is a gap in the literature regarding the impact of culture on corporate governance. Particularly, in the Jordan context. This study will fill this gap by investigating the impact of the culture on corporate governance (Board Structure) in Jordan companies in terms of Board Size (BS); Board Independence (BI); Non- CEO duality (NCEO).

3. Methodology

3.1 Sample and data collection

The sample of this paper consists of the (105) companies from the financial sectors companies in Jordan that are listed in Amman Stock Exchange for the period (2013–2018). The corporate governance (Board structure) data were collected from the annual report from Amman Stock Exchange (ASE). And the data of cultural dimensions were collected through questionnaires that was distributed to the selected companies.

3.2 Model of study

The current study employed the multiple regression model with board structure BS as a dependent variable DV. The aim of the study is to investigate the impact of the culture on corporate governance (Board Structure) in the Jordan context. Hofstede's Cultural Dimensions HCL is the independent variables IDV. The study adopts the following multiple regression model:

$$BS = \alpha + \beta 1(PDI) + \beta 2(IDV) + \beta 3(MAS) + \beta 4(UAI) + \beta 5(LTO) + \beta 6(IND) + \varepsilon \quad (1)$$

Where:

BS: Board Structure (Board size (BZ), Board independence (BI), and Non- CEO duality (NCEO).

PDI: Power Distance Index.

IDV: Individualism versus collectivism.

MAS: Masculinity versus Femininity.
UAI: Uncertainty Avoidance index.
LTO: Lon0g-versus Short- Term Orientaion.
IND: Indulgence versus Restraint.
α:Is the constant.
β:The coefficiet of the independent variables.
ε:Residual.

3.3 The developed hypothesis

Based on the reviewed literature and the objectives of the study, important null hypotheses were developed as follows:

H01: There is no impact of the Hofstede cultural dimensions (HCL) on Board size (BZ) in Jordanian companies.

H02: There is no impact of the Hofstede cultural dimensions (HCL) on Board Independence (BI) in Jordanian companies.

Culture/ corporate governance	Authors	Empirical studies Title	Findings
Legal transplants, corporate goals, corporate social responsibility, dividend distribution, the structure of the board.	"in [3]"	Culture and Law in Corporate Governance	there is a role of culture in formulating corporate governance
• (PDI) • (IDV) • (UAI) • (MAS)	"in [2]"	The cultural influence in the practice of corporate governance in emerging markets	Emerging market features with a high PDI, high UAI, low IDV, and low MAS. Poor corporate governance
• Schwartz framework: Embeddedness-Autonomy; Hierarchy-Egalitarianism; Mastery-Harmony. • (PDI); (IDV); (UAI); (MAS)	"in [18]"	Culture Rules: The Foundations of the Rule of Law and Other Norms of governance.	Social norms of governance correlate with cultural dimensions.
• (UAI) • (MAS) • (IDV)	"in [19]"	Cultural Determinants of Ownership Concentration Across Countries	• Values influences on ownership concentration mechanisms. • Ownership concentrated influence by power distance and Individualism. • countries with Ownership concentrated characterized by high uncertainty and low masculinity

(PDI): Power distance index; (IDV): Individualism vs. collectivism); (UAI): Uncertainty avoidance Index; (MAS): Masculinity versus Femininity; (LTO) Long-term orientation

Source: (Author's own, 2021).

Table 1.
Empirical studies of the culture and corporate governance.

Variable	Description	Measurement
Hofstede's cultural dimensions (IDV)		
PDI	Power Distance Index	Survey Questionnaire
IDV	Individualism versus Collectivism	
MAS	Masculinity versus Femininity	
UAI	Uncertainty Avoidance Index	
LTO	Long- Versus Short-Term Orientation	
IND	Indulgence versus Restraint	
Board Structure BS (DV)		
BZ	Board size	The total number of board members
BI	Board Independence	
NCEO	Non- CEO duality	
Source: (Author's own, 2021).		

Table 2.
The description and the measurement of the variables.

H03: There is no the impact of Hofstede cultural dimensions (HCL) on Non- CEO duality (NCEO) in Jordanian companies.

3.4 Variables measurements

Variables used in this study include: (1) Independent variable IDV (culture), to measure the culture the study used the Hofstede cultural dimensions CL as in terms of (Power distance index (PDI), Individualism vs. collectivism (IDV), Uncertainty avoidance (UAI), Masculinity vs. femininity (MAS), Long-term orientation vs. short-term orientation (LTO), Indulgence vs. restraint (IND). (2) dependent variable DV (corporate governance) this study used different proxies to measure CG by using board structure in terms of board size (BZ); Board independence (BI); Non- CEO duality (NCEO). The following **Table 2** show the description and the measurement of the variables.

4. Empirical results and discussion

The current study employs statistical tests: Descriptive statistics, Pearson correlation, and the regression analysis.

4.1 Descriptive statistics

This section presents the Descriptive Statistics of DV the Board structure in terms of board size (BZ), Board independence (BI), and Non- CEO duality (NCEO), and INV Hofstede cultural dimensions (Power distance index (PDI), Individualism vs. collectivism (IDV), Uncertainty avoidance (UAI), Masculinity vs. femininity (MAS), Long-term orientation vs. short-term orientation (LTO), Indulgence vs. restraint (IND). Such as (Maximum, Minimum, Mean and standard deviations). The following **Table 3** shows the Descriptive Statistics of DV (BI) and, IND (PDI, UAI) Variables.

Variable	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
					Statistic	Std. Error	Statistic	Std. Error
LPDI	1.00	5.00	3.9193	.88501	−1.016	.186	.583	.369
LTO	1.00	5.00	3.9661	.91561	−.746	.186	.312	.369
COLL	1.67	5.00	4.0000	.67585	−.631	.186	.817	.369
MAS	1.00	5.00	3.8023	1.08183	−.564	.186	−.552	.369
REST	1.00	5.00	3.8094	1.09905	−.214	.186	−1.107	.369
HUAI	1.25	5.00	3.9988	.56680	−1.049	.186	1.012	.369
BZ	4.00	12.00	6.8253	2.18413	.460	.237	−.734	.469
BI	.00	1.00	.910	.12514	−1.810	.237	.716	.469
NCEO	.00	1.00	.903	.26564	.753	.237	1.127	.469

LPDI: Low Power Distance Index; LTO: Long- Versus Short-Term Orientation, COLL: Collectivism; MAS: Masculinity; HUAI: High Uncertainty Avoidance Index; REST: Restraint; BZ: Board size; BI: Board independence; NCEO: Non- CEO duality

Source: (Author's Survey, 2021).

Table 3.
Descriptive statistics of DV (BI) and, IND (PDI, UAI) variables.

The descriptive statistics show the normality of the data, Mean, Standard Deviation, Minimum, and Maximum. The mean value of LPDI, LTO, COLL, MAS, REST, HUAI are (3.9193, 3.9661, 4.0000, 3.8023, 3.8094, 3.9988) respectively with Standard Deviation of .88501, .91561, .67585, 1.08183, The descriptive statistics show the normality of the data, Mean, Standard Deviation, Minimum, and Maximum. The mean value of LPDI, LTO, COLL, MAS, REST, HUAI are (3.9193, 3.9661, 4.0000, 3.8023, 3.8094, 3.9988) respectively with Standard Deviation of .88501, .91561, .67585, 1.08183, 1.09905, .56680. The COLL has the highest mean value of 4.0000 among all other cultural dimensions.

Regarding the Board size (BZ) the mean value is (6.8253) that ranges between a minimum of (4.67) and a maximum of (13) which means there is some companies the board member less than (11). Independence board (BI) the mean value is (.910) that ranges between a minimum of (.00) and a maximum of (1) which means most of the companies in Jordan characterized by the independence that reveals these companies binder with this mechanism. Non- CEO duality (NCEO) registers average with (.903) and standard deviation of (.26564) Which means that that there are separate between the chairman and the CEO in most Jordanian companies. The COLL has the highest mean value of 4.0000 among all other cultural dimensions.

4.2 Multicollinearity test

Multicollinearity test has been conducted within the regression model. This test is reveals if there is high correlation between the independent variables that should be excluded from the model to achieve more true results. The results of the test show that the (VIF) is less than (10), which means there is no high correlation between the independent variables.

4.3 Regression and testing hypotheses (empirical result and discussion)

Multiple regression has been used to investigate the impact of the culture on corporate governance (Board Structure) in Jordan companies. The researcher adopted the significant level (.1) as this level of significance could be adopted in the social sciences. In the following the proposed models of the study:

Model (1): This model measures the impact of Hofstede cultural dimensions on.

Board size (BZ).

Model (2): This model measures the impact of Hofstede cultural dimensions on Board independence (BI).

Model (3): This model measures the impact of Hofstede cultural dimensions on Non- CEO duality (NCEO).

4.3.1 The impact of Hofstede cultural dimensions on board size (BZ)

Model (1): This model measures the impact of Hofstede cultural dimensions on.

Board size (BZ).

H01: There is no impact of the Hofstede cultural dimensions (HCL) on Board size (BZ) in Jordanian companies.

The following **Table 4** shows The Regression analysis result of Model (1) the impact of the Hofstede cultural dimensions on Board size (BZ).

Table 4 shows the results of the regressions analysis of the model (1) consists of the dependent variables Board size (BZ) and the independent variable the Hofstede cultural dimensions. This is model is fitted with the Hofstede cultural dimensions (LPDI, COLL, REST, HUAI). While the other HLC (MAS, LTO) are not fit for this model. The R square is (.08) the explanatory power of the model. This means that the model explains just (8%) of the change that occurs in the dependent variable Board size (BZ). The F-statistics is (2.162) at a significant level (.079). This means that the explanatory power of the model is statistically significant at the level of significance (0.1), which means that the Hofstede cultural dimensions affect Board size (BZ). The values of (β, t, Sig) for each dimension of the Hofstede cultural dimensions show that the (LPDI, HUAI) are effect on Board size (BZ) at a statistically significant level with the value of (0.025, 0.085) respectively.

This means Board size (BZ) is significantly determined by (LPDI, HUAI). Where (LPDI, HUAI) are affected negatively on Board size (BZ) with a coefficient value of (−.565, −.577). This means (BZ) is significantly determined and affected by (LPDI, HUAI) in a negative manner. While there is no effect of (COLL, REST) on (BZ). This means (BZ) is not significantly determined by (COLL, REST).

Variable	R Square	F-value	Significance of F (Sig)	Durbin-Watson
Hofstede cultural dimensions, Board size (BZ)	.080	2.162	.079b	1.132
	Beta	T	Sig	
(Constant)	9.454	5.044	.000	
LPDI	−.565	−2.278	.025*	
COLL	.484	1.357	.178	
REST	.176	.865	.389	
HUAI	−.577	−1.742	.085***	

, **, * significant at the 0.01, 0.05, and 0.1 levels, respectively.*

Table 4.
The regression analysis result of model (1) the impact of the Hofstede cultural dimensions on board size (BZ).

Based on the above results, the tested hypothesis H01: There is no impact of the Hofstede cultural dimensions (HCL) on Board size (BZ) in Jordanian companies is rejected and accepted the alternative Hypotheses regarding the (LPDI, HUAI) while the tested hypothesis H01 is accepted regarding (COLL, REST). This means that (LPDI, HUAI) are the most dimensions that affect significantly on Board size (BZ).

4.3.2 The impact of Hofstede cultural dimensions on board independence (BI)

Model (2): This model measures the impact of Hofstede cultural dimensions on Board independence (BI).

H02: There is no impact of the Hofstede cultural dimensions (HCL) on Board Independence (BI) in Jordanian companies.

The following **Table 5** shows the Regression analysis result of Model (2) impact of the Hofstede cultural dimensions on Board Independence (BI).

Table 5 shows the results of the regressions analysis of model (2) consists of the dependent variable Board Independence (BI) and the independent variable the Hofstede cultural dimensions. This is model is fits just with the Hofstede cultural dimension (COLL). While the other HLC (LPDI, REST, HUAI, MAS, LTO) are not fit for this model. The R square is (.036) the explanatory power of the model. This means that the model explains just (3.6%) of the change that occurs in the dependent variable Board Independence (BI). The F-statistics is (3.789) at a significant level (.054). This means that the explanatory power of the model is statistically significant at the level of significance (0.1), which means that the Hofstede cultural dimension (COLL) affects Board Independence (BI). The values of (β, t, Sig) for (COLL) show that the (COLL) is an effect on Board Independence (BI) at a statistically significant level with the value of (0.054).

This means Board Independence (BI) is significantly determined by (COLL). Where (COLL) is affect negatively on Board Independence (BI) with a coefficient value of (– 0.037). This means (BI) is significantly determined and affected by (COLL) in a negative manner. This result is inconsistent with "in [17]" who found there is a positive relationship between the outsider member and individualism, uncertainty avoidance, femininity, and power distance. On the other hand, (BI) is not significantly determined by (LPDI, REST, HUAI, MAS, LTO).

Based on the above results, the tested hypothesis H02: There is no impact of the Hofstede cultural dimensions on Board Independence (BI) in Jordanian companies is rejected and accepted the alternative Hypotheses regarding the (COLL) while the tested hypothesis H02 is accepted regarding the other HLC (LPDI, REST, HUAI, MAS, LTO). This means that (COLL) is the most dimensions affect significantly on Independence (BI).

Variable	R Square	F- value	Significance of F (Sig)	Durbin-Watson
of the Hofstede cultural dimensions, Board Independence (BI)	.036	3.789	.054b	1.749
	Beta	T	Sig	
(Constant)	1.051	13.598	.000	
COLL	–.037	–1.947	.054***	

, **, * significant at the 0.01, 0.05, and 0.1 levels, respectively.*

Table 5.
The regression analysis result of model (2) impact of the Hofstede cultural dimensions on board Independence (BI).

4.3.3 The impact of Hofstede cultural dimensions on non-CEO duality (NCEO)

Model (3): This model measures the impact of Hofstede cultural dimensions on Non- CEO duality (NCEO).

H03: There is no the impact of Hofstede cultural dimensions (HCL) on Non-CEO duality (NCEO) in Jordanian companies.

The following **Table 6** show The Regression analysis result of Model (3) the impact of the Hofstede cultural dimensions on Non- CEO duality (NCEO.

Table 6 shows the results of the regressions analysis of the model (3) consists of the dependent variable Non- CEO duality (NCEO) and the independent variable the Hofstede cultural dimensions. This is model is fitted with all of the Hofstede cultural dimensions (LPDI, LTO, COLL, MAS, REST, HUAI). The R square is (.105) the explanatory power of the model. This means that the model explains just (10.5%) of the change that occurs in the dependent variable Non- CEO duality (NCEO). The F-statistics is (1.899) at a significant level (.089). This means that the explanatory power of the model is statistically significant at the level of significance (0.1), which means that all of the Hofstede cultural dimensions affect Non- CEO duality (NCEO). The values of (β, t, Sig) show that the (REST) is effect on Non-CEO duality (NCEO) at a statistically significant level with the value of (0.014).

This means Non- CEO duality (NCEO) is significantly just determined by (REST). Where (REST) is affect negatively on Non- CEO duality (NCEO) with a coefficient value of (− 0.064). This means Non- CEO duality (NCEO) is significantly determined and affected by (REST) in a negative manner. This result is inconsistent with "in [17]" who found there is a positive relationship between the combine of the chairman and the CEO and individualism, uncertainty avoidance, and power distance. On the other hand, (Non- CEO duality (NCEO) is not significantly determined by (LPDI, LTO, COLL, MAS, HUAI).

Based on the above results, the tested hypothesis H03: There is no impact of Hofstede cultural dimensions (HCL) on Non- CEO duality (NCEO) in Jordanian companies is rejected and accepted the alternative Hypotheses regarding the (REST) while the tested hypothesis H02 is accepted regarding the other HLC (LPDI, LTO, COLL, MAS, REST, HUAI). This means that (REST) is the most dimensions that affect significantly on Non- CEO duality (NCEO).

Variable	**R Square**	**F- value**	**Significance of F (Sig)**	**Durbin-Watson**
Hofstede cultural dimensions, Non- CEO duality (NCEO)	.105	1.899	.089b	1.776
	Beta	T	Sig	
(Constant)	−.199	−.823	.413	
LPDI	.022	.598	.551	
LTO	−.010	−.274	.785	
COLL	.068	1.559	.122	
MAS	.005	.190	.849	
REST	−.064	−2.500	.014**	
HUAI	.050	1.244	.216	

, **, * significant at the 0.01, 0.05, and 0.1 levels, respectively.*

Table 6.
The regression analysis result of model (3) the impact of the Hofstede cultural dimensions on non- CEO duality (NCEO.

Variable	R Square	F- value	Significance of F (Sig)	Durbin-Watson
Hofstede cultural dimensions, Board Structure	.076	2.043	.094b	1.106
	Beta	T	Sig	
(Constant)	3.488	5.758	.000	
LPDI	−.232	−2.360	.020	
LTO	.081	.849	.398	
COLL	.166	1.392	.167	
HUAI	−.183	−1.649	.102	

*, **, *** *significant at the 0.01, 0.05, and 0.1 levels, respectively.*

Table 7.
The regression analysis result of the impact of the Hofstede cultural dimensions on board structure.

4.3.4 The impact of Hofstede cultural dimensions on board structure (BZ, BI, NCEO)

This section presents model (M4), this model were conducted for additional results, this model combines the Hofstede cultural dimensions and the proxies of Board Structure (BZ, BI, NCEO).

The following **Table 7** shows The Regression analysis result of the impact of the Hofstede cultural dimensions on Board structure.

Table 7 shows the results of the regressions analysis of the model (4) consist of the dependent variable board structure BS and the independent variable the Hofstede cultural dimensions HCL. This is model is fitted with the Hofstede cultural dimensions (LPDI, LTO, COLL, HUAI). The R square is (.076) the explanatory power of the model. This means that the model explains just (7.6%) of the change that occurs in the dependent variable board structure. The F-statistics is (2.043) at a significant level (.094). This means that the explanatory power of the model is statistically significant at the level of significance (0.1), which means that all of the Hofstede cultural dimensions affect board structure. The values of (β, t, Sig) show that the (LPDI) is an effect on board structure at a statistically significant level with the value of (.020).

This means board structure is significantly just determined by (LPDI). Where (LPDI) is affected negatively on board structure with a coefficient value of (− 0.232). This means board structure is significantly determined and affected by (LPDI) in a negative manner. On the other hand, board structure is not significantly determined by (LTO, COLL, HUAI).

5. Conclusions

Many studies have been conducted on culture and corporate governance and their relationship with performance. While, lack studies addressed the relationship between culture and corporate governance particularly, in the Jordan context. Some studies conducted on culture and corporate governance that confirmed that there is a relationship between culture and corporate governance "in [17, 18]".

The current study has added a contribution to the debate regarding this issue. This paper provides new contributions by presenting significant results and critical managerial implications to the literature as a new study conducted to investigate the impact of culture on corporate governance in terms of board structure in the Jordan context. The current study aims to investigate the impact of the culture on corporate governance (Board Structure) in Jordan companies for the duration (2013–2018). The study used different proxies to measure corporate governance in terms of Board Structure. For this purpose developed hypotheses were tested. The findings indicated that there is an impact of culture on corporate governance (Board Structure), this impact is negative and significant. The results show regarding the Board size (BZ) that the Jordanian companies are somewhat committed to the rules of the board member. Furthermore, most of the companies in Jordan characterized by the independence of the board (BI). As well as there are separate between the chairman and the CEO in most Jordanian companies. Regarding the Hofstede cultural dimensions, the results show that the COLL has the highest mean value of 4.0 among all other cultural dimensions.

Regarding the regressions analysis, the results of model (1) show that the Hofstede cultural dimensions (LPDI, HUAI) are effect negatively on Board size (BZ). Model (2) shows that the Hofstede cultural dimension (COLL) affects negatively Board Independence (BI). Model (3) shows that (REST) is effect negatively on Non- CEO duality (NCEO). From the previous results, it is notable that despite the commitment of Jordanian companies to rules of the board size, but there is no impact of Hofstede cultural dimensions on board size, except for the dimensions (LPDI, HUAI). As well as although most of the companies in Jordan characterized by the independence of the board, there is no impact of Hofstede's cultural dimensions on Board Independence, except for (COLL). Furthermore, most of the companies in Jordan characterized by the Non- CEO duality, but there is no impact of Hofstede cultural dimensions on Non- CEO duality except for (REST).

6. The importance of research for the future and recommendations

The current study provides new contributions by presenting significant results to the literature regarding the culture and corporate governance in the Jordan context as a modern study that conducted to investigate the impact of the culture on corporate governance. The current study used different proxies to measure the corporate governance by using board structure in terms of board size (BZ); Board independence (BI); Non- CEO duality (NCEO) to investigate the impact of culture on corporate governance.

The results of the current study show there are impacts of the culture on the board structure. These results are consistent with the previous studies that indicated that there is a relationship between culture and corporate governance. However, this impact is somewhat weak as the empirical results show that not all of the cultural dimensions are affected the board structure. Where (LPDI, HUAI) impacts negatively on Board size (BZ). (COLL) impacts negatively on Board Independence (BI), and (REST) impacts negatively on Non- CEO duality (NCEO). This weak impact and in a negative direction could be explained due that the developing countries are characteristics with weak corporate governance practices are weak. In addition, the culture in these countries is different from that of developed countries. Therefore, the current study recommends applying managerial implications and regulations that could help the related parties such as investors, managers, and policymakers in making decisions in the Jordan context. Such as companies should concern with the culture and the local norms when constructing the board or the structure of the company as well as focus on the values of the organization that plays a critical role in the values of the individual and shaping the behavior of the individual that affects the culture that could impact the organizational structure, particularly, on the board of directors. As the human factor is the essence of culture.

In addition, increasing the interest and awareness about the environment when improving company regulations. As a result, that could play an important role in changing the culture as building a strong culture encourages all employees to perform their roles. In addition, adopting and practicing good CG tools leads to attracting foreign investors. Finally, the current study showed that the results of literature related to culture and its impact on the board of directors are controversial. And there is a lack of studies regarding this issue. Therefore, the Current study recommends further future studies in this field, which contributes to enriching the literature.

Acknowledgements

I would like to offer my gratitude to my mother "Nusaibah" for all the support, love, and encouragement she provided me to produce this research. I also offer my extensive gratitude to IntechOpen Limited for gaving me the opportunity for publishing my research work as a book chapter in the Corporate Governance chapter.

Abbreviations

HCL	Hofstede cultural dimensions
CG	Corporate governance
BS	Board structure
BZ	Board size
BI	Board independence
NCEOD	Non CEOD duality
LPDI	Low Power distance index
LTO	Long-term orientation vs. short-term orientation
COLL	Collectivism
MAS	Masculinity
REST	Restraint
HUAI	High Uncertainty avoidance Index

JEL Classifications: G34, G10, M14

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Chapter 7

South African E-Toll Consultation SAGA: Corporate Governance Lessons for Public Consultation in Mega-Projects

Nthatisi Khatleli

Abstract

Mega-projects have unfortunately gained a bad name the world over. The electronic-tolling project in Johannesburg called the GFIP (Gauteng Freeway Improvement Project) is one such project. The perfunctory consultation initiative in an environment where the legislation is not robust and the corporate governance is still fledging led to opportunistic behaviours characterised by malicious compliance. The take home lesson especially in these high dollar projects is to be prescriptive on the consultation process that is backed by a well-thought-out legal framework. The scrutiny of documents and interviewing all the stakeholders was insightful and instructive even to other jurisdictions. Notably that a shallow and limited consultation drive is counter-productive. For a consultation drive to yield desired results it has to be deliberate, aggressive and tailor-made to suit contextual exigencies.

Keywords: corporate governance, E-tolling, mega projects, public consultation, South Africa

1. Introduction

The network of freeways in Johannesburg has reached its peak, in a province that contributes about 38% to the GDP [1]. There was a lot of ballyhoo around the roll out of the Gauteng Freeway Improvement Project (GFIP). South African National Roads Agency Ltd. (SANRAL) is charged with managing all the main roads linking all the economic hubs, towns and small villages. The national network is used for economic advancement, tourism, social upliftment and unlocking financial possibilities [1]. The Government Gazette [2], the SANRAL and National Roads Act, 1998 (South Africa, Act No. 7 1998) [3] as publicised by the Government Notice No. 30912 of 28 March 2008 [4] authorises SANRAL to charge user fees on specific roads in Johannesburg. The roads are N1 sections 20 and 21, N3 section 12, N4 section 1 and N12 sections 18 and 19. Government Notice No. 31273 as of 28 July 2008 [5] added R21 sections 1 and 2. SANRAL is equally tasked with capping the toll charges on motorists and the monitoring thereof.

On its completion, the project to uplift the web of roads in and around Gauteng metros was meant to increase the breadth of the road to four lanes and sometimes to six [6]. The project was phased such that the first part was to refurbish the existing 185 km stretch and the second part was to construct and/or refurbish a further 376 km. The chief benefit of the scheme is to smoothen the traffic flow at critical interchanges (ibid.). The first encompasses Allandale, Rivonia, William Nicol, Gillooly's and Elands intersections. What will be provided at final completion is an Intelligent Transport System (ITS) based on cameras, the median lighting, smart electronic boards together with the latest traffic management enhancements (ibid.). These improvements are meant to deliver efficient traffic flow and lessen gridlocks as accidents-induced bottlenecks will be disseminated to road users to avoid idle time.

Electronic Toll Collection otherwise known as E-Toll was adopted. This system works by an e-tag displayed on the windscreen of a vehicle. The vehicles are not required to stop at gantries in these e-roads as this Open Road Tolling (ORT) allows the tags to be electronically recognised and read automatically. This toll collection system not only deducts the pre-loaded money on the e-tag transponders but they also recognises the vehicle number plate. If the driver does not have an account with SANRAL the bill is send via post to their address, the number plate would have been recognised in front and at the back and link to a person registered as the owner of the vehicle. The gantry equipment also enables it to measure the vehicle for classification purposes. Gauteng has 43 gantries along the N1, N3, N12 and R21. These overhead gantries are spaced approximately every 10 km (or between interchanges) [7].

The scheme was buffeted from all side from the get go by diverse organisations. The groupings decrying its unconstitutionality are religious associations, civic organisations and political parties; two groupings notably stood apart in their opposition. These groupings are Opposition to Urban Tolling Alliance (OUTA) and Confederation of South African Trade Unions (COSATU). OUTA emerged as an association of haulage lorries owners and car hire companies owners in Johannesburg. This association has evolved and adopted a new identity christening itself Organisation Undoing Tax Abuse whilst retaining the original acronym, as it has now morphed so many interests seeking to root out any tax abuse incidents by authorities. OUTA constitution treats the tolling of the GFIP, as unacceptable due to what it considers to have been a shallow and consultation process with respect to the private companies and the general populace. OUTA advocates against overburdening the local populace with more taxes when there is already an escalation of fuel prices. Furthermore, the adverse ramifications on the Gauteng economy because of the extra cost of the private project management during its operation; opaqueness on the calculation of the charges; how the collected funds will be utilised; worries about the finer details that are not debated properly like the curbing number cloning and protection of citizens privacy as private companies will access their bank details; legal legitimacies of seeming ceding of public Gauteng assets to SANRAL; environmental imperatives due to the envisaged congestions due to the small number of alternative roads [8]. The general populace's perception and the strategies utilised to consult them was the goal of this study. The lessons garnered here will be instructive in future similar projects. This is pertinently so as this speaks directly to corporate governance in South Africa.

Corporate governance is concerned with how corporate problems are dealt with among diverse stakeholders. It seeks to solidify predictable reconciliation protocols for myriad disputes where there are conflicting interests among claimholders [9]. This is a quest to ensuring that there are appropriate processes and controls balancing the smorgasbord of interests from among others the employees, customers and the community [10]. Institutions/companies that adhere and advance good corporate governance are hardly in the news because good corporate governance reduces scandals that the tabloids thrive on. So a very well-structured corporate governance structure should focus on four P's of corporate governance which are people, process, performance and purpose [11]. The study looks at the process of public consultation and the regard of the general populace in implementing the E-toll project.

The aim of the study was to assess the extensiveness of the public consultation process for the GFIP project. With the objectives geared toward investigate the public engagement methods deployed during the project. To determine the main purpose of the public engagement process; identify any alignment with international best practice. And finally to consolidate the lessons for future improved consultation initiatives.

2. Literature review

2.1 Defining tolling

Tolling is a charge one incurs for using a facility availed for public usage. The most popular format is a charge for utilising a road or a part thereof, known as a per-use fee. For a very long time the charges were based on the tare or the number of axels on a vehicle plus the length of the stretch of the road used. Lately, in some projects the charges differ depending on the time of the day. The revenue thus collected is ploughed back into the project for expansion, for the operation and the maintenance of the facility as well [12]. Norway for instance has 48 tolling roads in operation which generate a lot of income for the rollout of future projects, as they generate about 25–30% of the total national road construction budget. Tolling has been very successful in Norway for over 50 years [13]. Experiences in Norway, France and other countries are a testament that success is rooted in widespread meaningful public consultation.

There is a variant to the traditional approach to tolling which involves varying the charges depending on the demand. This approach has other names like value pricing, peak-period pricing, congestion pricing or market-based pricing. This approach parrots the pricing of airline tickets, cell phone calls billing and electricity usage charges. Congestion charging not only is a source of income, but demand is managed as non-essential trips could be postponed when the rates are low thus easing the unnecessary gridlocks. The market forces can thus be harnessed to lessen time wastage, reduction of unnecessary toxic emissions and avoidance of accidents [12].

2.2 Urban tolling in other countries

1. There are four congestion pricing strategies that utilising tolling. The first is **Priced Managed Lanes,** also called "partial facility", where designated lanes in both directions are set apart as high priority and priced higher than the general purpose lanes. If the traffic artery is prone to high congestion these lanes ease traffic as they are reserved for transit riders, High Occupation Vehicle (HOV) motorists and paying non-HOV drivers.

2. **Priced Highways:** here the prices vary for per peak vs. off peak hours ala passenger rail pricing. It has successfully been implemented in Lee County Florida where there is 50% discount if customers travel between 6:30–7 am, 9–11 am, and 2–4 pm [12].

3. **Priced Zones (area or cordon pricing)**: the benefit with this is that driving within a demarcated area attracts a fee within certain hours thus reducing

non-essential travel. The options for levying charges range from time specific charging to the size of vehicle used. The levies could be done each time the vehicle passes or aggregated within 24-hour period. Since 2003 London has adopted a 24-hour approach where a set figure is charged within an identified zone in central London. Several concessions do exist including a 90% discount for residents [12].

4. **Priced Road Networks**: A selected number of lanes is priced. Although a first of its kind in the world, it has been in operation in Singapore in the mornings since 1975. The system transitioned to full automation in 1988 and it brings in about US$70 million for the city whilst operation costs are only 7% of that. Entering the CBD also attracts another area pricing charge during the weekdays [12].

The SANRAL submissions in all forums where they defend their approach do not show any awareness of these alternatives or how far they were explored and compared against each other. The public consultation should have been based on these tried and tested alternatives and their potential adaptability to the South African socio-economic climate. The next section will deal with the issue of Public Consultation.

2.3 Public consultation

The International Association for Public Participation (IAPP) regards public participation as the co-opting of the views of the general populace in formulating the final decision on matters that affect them. When the participation is meaningful the decisions are sustainable [14]. The public participation could be strategize to include workshops, public meetings, open houses, surveys, citizen's advisory committees, polling and any acceptable public engagements (ibid.).

Many a time there is focus on technical performance of the infrastructure whilst ignoring a plethora of other considerations that enhance the project performance. The local communities as the ultimate consumers must be regarded as the main consideration before implementation. The clients' welfare should top the list of considerations, the day-to-day managers of the facility, the design and maintenance teams, the construction team and suppliers. Each decision by one group will almost inevitably affect others higher up in the development pyramid. The easiest way to keep the popular kickback due to resistance is to have an all-encompassing involvement. Burroghs [15] posits that despite the sometimes negative media influence, the general populace deploy common sense when given full information. Although the public is the ultimate fanancier of the project through taxes and user-fees, however, they are often not taken seriously especially when there is no binding legislation to do so in a jurisdiction [16]. Some commentators on this issue are clear that consultation sometimes forces transparency on the projects especially around cost which might work against the project if it is too high. Opaqueness is used strategically for selfish purposes to ensure buy-in from decision-makers. This has resulted in a bad reputation of the construction industry where megaprojects in particular are characterised by runaway costs [15].

Consultation by definition a two-way process of dialogue between the project company and its stakeholders. The interaction should be implemented from the start and sustained throughout tenure of the project as a way to get a 'social licence to operate' from the general populace [17]. Smith [18] clarifies that "public participation" involves a slew of processes meant to involve and educate the people so that they can have a meaningful input. Rowe and Frewer [19] reemphasizes that "input" is the key word, as this shows that there is an intention to hear the other side. Consultation should be grounded in a neo-institutionalist perspective that focuses on intrinsic firm's regulations and rules touching the city's management when it comes to consultation and popular involvement fashion [20]. The emerging interventions including citizens focus groups in different forms encourage lively interactions in a democratic dispensation to reach all-inclusive decisions [21].

The IFC [17] suggests that a good plan is critical before starting the initiative, as that will help identify key stakeholders and issues vexing them about the development. A Stakeholder Engagement Plan is indispensable where there are a number of stakeholders with diverse concerns and issues. It is one thing to listen to people but although that is encouraged, there must be firm assurances that their input will somehow be incorporated (ibid.). The implementation plan for consultation should be communicated well. It will appear from many complaints from the members of the public that perhaps the simplest principles of public consultation for a project of the GFIP magnitude were not properly followed.

After surveying 25 countries the OECD came to the conclusion that governance impediments are besetting the consultation throughout the life cycle of the project. Most countries in the study do not have an overarching strategy but have sectoralized the implementation of the initiatives. Due to their nature infrastructure projects are susceptible to corruption, capture and abuse throughout their lifetime [22]. Although most countries are aware of this weakness they are slow in coming up with robust integrity fostering instruments. Even where they exist there is in some jurisdictions notable political interference in prioritising projects and who to consult. A very poor consultation could even frustrate the implementation of an otherwise good project. Consultation is common and concentrated in the preparation phase, but it is less common in cementing an overall vision or assessing needs. The consultation process according to the OECD [22] should be consumerate to the project magnitude and its wider public impact mindful of the concerns of the key stakeholders. The process of consultation should be broad-based, designed to elicit dialogue and be piggybacked on the public access to information and users' needs. The new technological advancement make consultation easy as there is no need to be in one place [23]. Any communication aimed at the general populace should be conducted early to have any impact. If people are not aware of the from an early stage, they may feel that their sentiments have deliberately been overlooked when it matters the most and the consultation is simply an afterthought or a tickbox exercise without any meaningful substance. When the general public is alienated this increases the number of objections resulting in costly delays and other complications. It is imperative with large projects that all options are laid on the table as the emotions are likely to run high in local communities.

This research was inspired by an earlier study conducted by Leromanachou et al. [13] and it also took lessons from the study taken by OECD [22] in 25 countries to see the lessons that can be drawn by a developing democracy like South Africa, which is a middle income country with a fledging consultation framework.

2.4 Corporate governance

The essence of corporate governance encapsulates the day to day operational functioning of a business. Van Wyk and Chege [24] are among authors who have decried the lackadaisical approach in the construction industry vis-à-vis other economic sectors. Corporate governance upholds the sacrosanct business principles of fairness, accountability and transparency [25]. The crux of the matter here is to assess whether there was fairness and transparency in the implementation of this scheme in Gauteng. What is at issue is whether the Gauteng government was fair and transparent in implementing the E-toll project in Johannesburg. If for something reason they could have been wanting in this regard, then corporate governance principles were not adhered to.

Since corporate governance provides a framework for achieving objectives, it encapsulates invariably every aspect of the organisation business. This invariably involve the action plans, including inside controls up to how performance is measured and corporate disclosure [11]. This means that governance should include ethical behaviour, corporate strategy, compensation and risk management (ditto). At the heart of corporate governance (CG) is the agency problem, where there is a separation of ownership and control [26]. The SANRAL agency was supposed to be representing the government, but if there is poor corporate governance the idealistic government's aspirations might not have been carried through.

The Gauteng E-toll project is the biggest project of its kind and it is implemented in an environment where megaprojects are relatively a new phenomenon in South Africa. That said it means some elements of megaprojects were manifested when it came to corporate governance issues. Due to the uniqueness of each individual project (Gauteng e-toll project being the first in South Africa) and the complexity of navigating the different expectations the project was from the get go a risky undertaking [27, 28]. Secondly megaprojects are multilevel structures where a balance has to be struck between conflicting interest at every stage [29]. The third point is that the utilisation of mega-money creates a fertile ground for all manner of unethical and exploitative behaviours [30, 31]. Fourthly megaprojects are a fertile ground for what are called black swans events. These are events that are so unexpected in a particular context, but which events are triggered by the sheer complexity of the project [32]. Biesenthal [27] argues that the multiplicity of stakeholders, the complexity of projects and the exploitative tendencies of some players lead to information being withheld or wrong information disseminated. Especially when it comes to issues of scope, risks, objectives, costs and schedule. These challenges are exacerbated by social, political and cultural challenges. According to Flyvbjerg ([33], p. 6) all this means that megaprojects should not be treated as "magnified versions of smaller projects" but as different projects with different demands, problems, power dynamics and structures.

3. Research methodology

The study wished to garner the awareness together with the amenability of the citizenry to the GFIP's tolling and given this problem a mixed method qualitative was the preferable route. The end-users were critical in providing the necessary insights. To this end researchers were sent to strategic catchment places like shopping malls to conduct a survey of the motorists' sentiments. The questionnaires were also deployed extensively to deal with the quantitative dimension of the strategy, thus making the overarching approach a mixed method. Officials from various organisations were also interviewed to provide some depth in understanding the problem in its totality. Maxwell [34] argues that implementing a qualitative approach is not a copy and paste job. For the qualitative approach to be implemented properly one needs to be iterative as one navigates different components of the design, as the different parts inform and impact one another. Qualitative approach has no definite starting point and does not move linearly through a series of steps, rather it relies on the dynamism of the situation and the components introduced to deal with it [34]. So the design is inspired by the environment and reacts to it. The following methods were regarded as the most suitable. The thematic content analysis advocated by Burnard [35] was adopted for this study. This in turn is inspired by Glase and Strauss's [36] Grounded Theory and other approaches utilising content analysis used by the likes of Berg [37].

In order to ensure validity members of the team not involved with the actual interviewing of respondents were tasked with the reading of the transcripts, coding and categorising of the themes [35].

It is a requirement for any research to get clearance here at the University of the Witwatersrand and this was complied with. The key stakeholders vehemently resisting the GFIP tolling were interviewed first. These were COSATU, a trade union representing the working masses and OUTA members. It was easy to identify the individuals from these organisation as they have been vociferous in the media, and they were more than willing to cooperate. Unfortunately, the agency involved was not ready to cooperate, as there were juristic disputations underway. Their public stance was that they did what needed to be done and they complied fully with the regulation. What was deemed important here was the depth and breadth of the data and this called for an active role in data collection [38]. To achieve this insight, individuals were interviewed who had studied the project documents, challenged its legitimacy through juristic disputations, mobilised the citizenry to resist complying with its precepts by instigating mass protests and mass media agitations. Frey and Oishi [39] define an interview as an interaction between two parties that is intended to illicit information on a topic of interest. Following Nichols [40] take on this, if the researcher wants to go open-ended they make the conversation to be as informal as possible by not even coming with a list of questions so that there is a natural flow in the interaction. Thus this study went for open-ended interviews because the researcher can thrust deep into the topic by submitting follow-up questions to get more information [38]. These in-depth follow-up enhance the quality of data thus gathered.

One thousand and eight hundred respondents participated at the three shopping malls in Gauteng. The malls were identified due to their wide catchment areas, popularity and size. Motorists were engaged with in the parking lots as they alighted their vehicles. Not all respondents filled all the questions, they skipped those they were not comfortable in fielding. Questionnaires are known as a formal list of questions used to elicit information from a sample group. What the researcher wants to know he/she converts into a set of questions that could be responded to by willing respondents. Questionnaires are generally used as a main tool for the collection of primary quantitative data [41]. The main benefit of a questionnaire is that data collected is standardised and thus making it consistent and easy to analyse. It could actually be regarded as a standard text interview dealing with all the subjects [42]. Whereas with other methods like interviews the same response could be put in different ways, with questionnaires there is simplicity and succinctness. This simplicity enhances analysis. What was really the focus of the enquiry was how early the citizenry were made aware of the project and to gauge their overriding sentiment toward e-tolling. The SurveyMonkey software package proved useful in providing a rounded analysis as it can enable a plethora of linkages. The SurveyMonkey was used to upload the data manually once the physical forms were completed by respondents.

The research's methodological inclination was largely inspired by Leromanachou et al. [13] in understanding tolling in Norway where respondents included the public company dealing with infrastructure and leaders at the local level.

4. Results and discussion

Below are some of the excerpts from the interviews with the leading protagonists against e-tolling. These assisted in eliciting themes that came out strongly during the deliberations.

4.1 Lack of transparency

Respondent one*: when preparing the start of a project of this size you have to carry everyone along. With the GFIP during the early days, robust engagement should have been had with all the stakeholders. The two issues that needed discussion were to ensure that the public understands that the infrastructure needs improvement and also the methods available for financing this development. On both fronts there was a serious dereliction by the authorities. During the build-up to the world cup there were many projects that were intended to upgrade infrastructure and enhance the successful hosting. The GFIP was largely regarded as a legacy project.*

It is clear from the response that the project hid behind the world cup hype and was not distinctly marketed as a stand-alone development requiring public financing through e-tolling. This shallow consultation led the public to make wrong conclusions about the scheme. Had the authorities been transparent the debate would have revolved around the most appropriate financing model for the project.

SANRAl was very conservative in sharing information on financing the project especially during the build-up to the world cup. SANRAL has always known their preferred financing model from the onset and they should have taken everyone on-board from the get go.

It is clear from the above different available methods of financing this project were never divulged to the general populace.

4.2 Poor planning

Tolling success is by law justifiable if there are alternave routes nearby. In a case such as this where those are already grid-locked with traffic it appears as if people are forced to use the tolled road.

There was no attempt to improve the alternative routes to make them veritable options. So the state is accused of compelling motorists to use the tolled route out of necessity.

4.3 State's profligacy

How exactly does the state manage infrastructure implementation? In as much as it is known that the funds are scarce but there is a lot of wastage in the system, the curbing of which could improve the provision.

Some subjects/respondents like the one quoted above were knowledgeable on state's management of resources. The mentioning of wastage in the system clearly showed that in some quarters tolling is regarded as unnecessary as improving the stewardship of public funds could make funding straightforward.

4.4 Lack of transparency

Respondent number two: *planning behemothic schemes like this one which are supported by public tolling requires consultation and consent from the populace, because this is some form of taxation. Since e-tolling is not manual where only payers could be allowed to proceed, willingness and buy-in are very crucial in ensuring compliance. Laws are generally as good as they are administrable. So putting one in place where enforceability is not guaranteed is a futile exercise. This ambitious project is implemented in a climate of utter mistrust against the government, where there is also grinding poverty among the masses. The rampant non-compliance thus introduced will lead to the upright citizens just subsidising the flouters.*

This response is in concert with the one before in that it advocates for implementing public consultation before anything else. The issue of lack of trust between the state and the people came up as a result of the repressive past in South Africa. What heightens the mistrust is if consultation comes very late in the project's implementation process. Low compliance creates a situation where the compliant members of the public are actually subsidising the rest.

Here is the question I would to pose to SANRAL: is this an extra tax? There should be very strict laws governing levying the public on anything, before a thoroughgoingly robust consultation process. Otherwise, the agitation thus instigated could lead to a mass disobedience.

There are societies and people acting independently inviting the government to arrest them as they are not willing to pay for the e-tolling. The legal fraternity has jumped into the bandwagon with at least one firm prepared to provide a pro bono service to anyone arrested for defiance. Although the issue has not been tested in the courts the mass resistance is a clear and present danger. It is 2021 now, not a single case of non-compliance has been brought before the courts.

4.5 Poor planning

In the Western Cape a similar project was tried early in 2000s but all the stakeholders, poured cold water on the initiative. This project, which was supposed to run along the garden route, was ultimately abandoned.

Since proper protocols were implemented it is surprising why the same was not done here. If it was not acceptable in a second largest city in the country, lessons could have been learned and the consultation could have been more intensive, more transparent and more prolonged to allow the proper exchange of ideas.

4.6 Malicious compliance

What was done in Johannesburg was the opposite of what was attempted before. One advert was placed in six papers in 2007 October. Just that one advert is all they did. The advert did not elaborate on the methodology of implementation, pricing or any other information that could elicit an objection or further enquiry. As a result, only 28 submissions were made one of which was a petition with 34 signatures. To make things worse they claim they received 85 responses... I do not care even if it was 185, we are talking about 2.5 million motorists here overall. Now with those appalling numbers they moved on convincing themselves that they did all they had to do. It was a classic tick-box exercise.

The dissemination of information about the impending development was very handicapped and the general populace was not afforded the chance to ruminate over the legitimacy of the scheme and its funding methods. Choosing six papers that do not have the widest circulation and again placing the adverts in awkward sections without much publicity was not going to attract a lot of input it appears. The respondent further divulged this information just shared.

The legislation stipulates that during consultation the net has to be cast as wide as possible and a minimum 30 days has to be afforded the public for their responses. The law allows the authorities to go up to 60 or 90 days in consulting the stakeholders. Considering that the project is the biggest of its kind in the world, and also that this is the African economic hub where the roads were free to use all along, that level of consultation is shockingly poor. All the critical stakeholders including haulage companies, vehicle rental sector, the disabled community and the AA were not in the loop from the onset. The inputs and opinions of these organisations is very crucial.

The very poor stakeholder analysis and identification led to a very stiff resistance from civil organisations like OUTA, as this development was disadvantageous to their businesses. It appears SANRAL did the barest minimum required which appeared not to have been adequate given the size of the project and its importance not only to the province, but regionally as well. Gauteng is the economic hub of the sub-continent beyond the frontiers of South Africa.

Below are the responses to some of the questions pertinent to public consultations that were contained in a questionnaire distributed to Gauteng residents (**Figures 1** and **2**).

- The majority (78%) of residents did not know that the consultation meetings were happening. This is indicative of a very poor marketing. Only 22% of the respondents were aware which is not really encouraging.

- Four percentage of the respondents rated the consultation process highly but an overwhelming majority at around 65% rated it poorly as they asserted that it was very bad. Two segments each comprising 15% of the respondents rated it moderately and good, respectively (**Figures 3** and **4**).

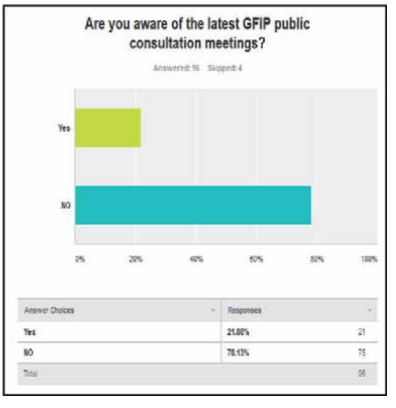


Figure 1.
Public responses from the survey.

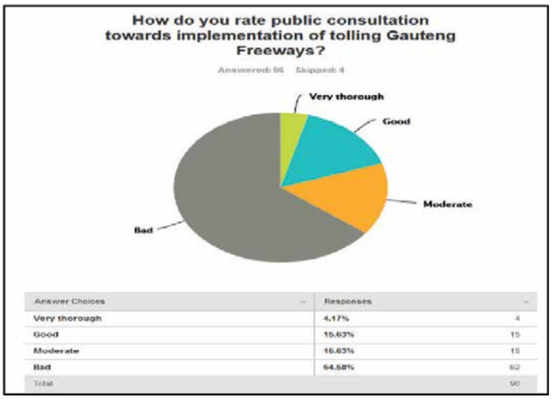
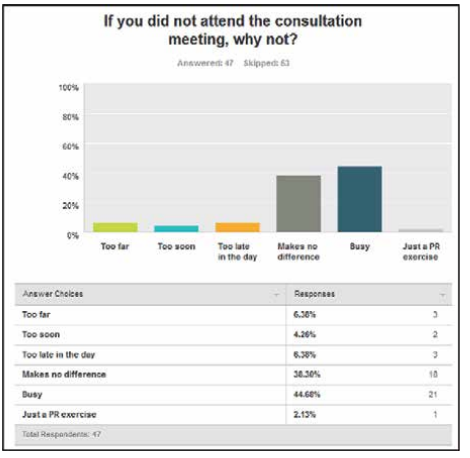
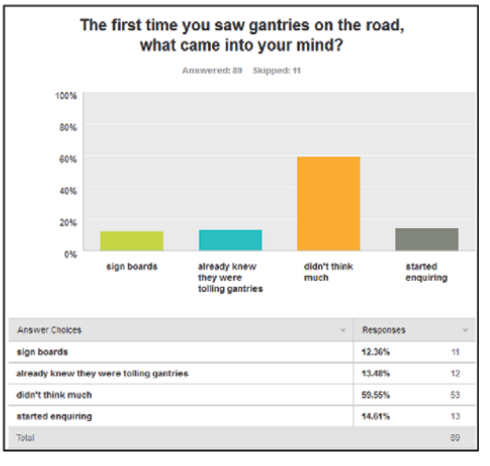


Figure 2.
Public responses from the survey.



Answer Choices	Responses	
Too far	6.38%	3
Too soon	4.26%	2
Too late in the day	6.38%	3
Makes no difference	38.30%	18
Busy	44.68%	21
Just a PR exercise	2.13%	1
Total Respondents: 47		

Figure 3.
Public responses from the survey.



Answer Choices	Responses	
sign boards	12.36%	11
already knew they were tolling gantries	13.48%	12
didn't think much	59.55%	53
started enquiring	14.61%	13
Total		89

Figure 4.
Public responses from the survey.

- When a question was posed to the respondents as to why they did not attend the consultation meetings. Most respondents at 44% claimed they were too busy followed by 34% who testified that it would not have made any difference. The other reasons that would have thought could attract more responses like the meetings were too far, too soon (without prior notice) or too late in the day were not cited as the main reasons. This is all indicative of a population that is disenchanted with the government approach to infrastructure implementation.

- Only 13% of the respondents were aware that the gantries were for the tolling project and around 60% did not think much about them. They are the first in the country and they can easily be confused with any of the big electronic sign boards. It is not surprising that 12% thought they were a new design of signboards. There other 14% started enquiring to find out what they were. SANRAL could have been more proactive in teaching the public about the project and its infrastructure.

5. Findings

The leading resisters to urban tolling were clearly of the different approaches that could have been deployed. The shallow and limited consultation process was a major deficiency in the implementation of the GFIP. This finding agrees with OECD [22] conclusion which motivates for a wide ranging consultation. As much as South Africa is not a first world country but internet connectivity is comparatively high and yet this was not sufficiently explored [23] as recommended by others. Instead traditional face-to-face methods were preferred and insistence on, which given the dissonance with the public, were actually a waste of time. Interviewees demonstrated a wide range of knowledge and awareness of viable alternatives, giving an impression that any serious engagement could have yielded a consensus on a suitable financing model. The OECD [22] further suggests that the consultation process should be proportional to the size of the project as intimated by one of the respondents that in a province of 2.5 million motorists (actually the registered cars on the eNatis system are 4, 643 741) that was not enough. However, the poor corporate governance around SANRAL might have encourage this opaqueness. The principal principles of fairness and transparency were not extolled as advocated by Nurlizzah and Binti [25].

Once the initial consultation was concluded there were no far reaching follow-up initiatives, leaving the citizenry not being able to distinguish the GPFIP infrastructure from the soccer world cup developments that were happening at the same time leading up to 2010. If only 85 people at most were engaged with, in a pool of around 4 million and the newspapers selected were not even the ones with the widest circulation then the purpose was a poor tick box exercise. Where there appears to have been a huge success over the years is where there is extensive public consultation [13]. South Africa has to learn and try to engage a lot more with the general populace to avoid a disaster that this project has become. The hype around the world cup and the legacy projects implemented at the time misled the general populace into lumping any major development as part of the legacy developments. However, a very poor marketing by SANRAL led to a major public disappointment when the truth was finally revealed. The perceived 'suddenness' of the introduction of the project occasioned by a lack of platform to mull over this project has compromised the 'psychological contract' the people of Gauteng might have had with the GFIP. The foregoing has made it clear that South Africa is far from deploying international best practice as the consultation programme was a failure. The project is very costly as the compliance rate in paying the e-tolls is very low as it is now estimated at around 20%, and the highest it has ever been in terms of people buying e-tags is put at around 40%. The best approach is to allocate enough time and resources to public consultation and really find what works in the South African context. There is a lot that can be drawn from the political sphere on how to engage with the different communities in the country. It is clear that the challenges are the same despite the advancement of a democracy in question. The level of resistance in South Africa is found in other developed countries and there is a lot that can be burrowed in terms of the best practices based on good democratic principles. The process has to be fair, transparent, adequate, aligned with the local culture and must be legally enforceable. There is not adequate legislative stipulation to put pressure on the officials in South Africa to implement public consultation in a meaningful manner. This poor corporate governance regiment leads to the observed agency problems alluded to by Amitava [26]. Any project that will finally require direct payment from the users is regarded as some form of taxation and robust engagement must be had to clear all the misunderstandings. If that is not achieved the economic viability of the project gets adversely affected. This is pertinently so in a country with very politically restive general populace. The main lesson is where a project is massive and it is complex there is bound to be black swans popping up, occasioned by commercial and political considerations. Any project that is oblivious to these cultural and political exigencies is bound to suffer as shown by Biesenthal [27] and Flyvbjerg [33]. Thus a very weak corporate governance has been exposed as direct result of the implementation of this project; epecially, around the issue of public consultation.

6. Conclusions

The Improvement of Gauteng freeways is a very noble endeavour and it was long overdue. It appears as if SANRAL in its implementation of GFIP did not abide by the basic principles of soliciting a "psychological contract" with the residents of Gauteng. However, a very weak corporate governance was potentially a breeding ground for the majority of the problems that were observed. The following have been identified as the concerns and sentiments of the major stakeholders and residents.

The consultation process was woefully hollow and was just a compliance exercise with no genuine intent to elicit public input. There was and still is a lot opaqueness on the financing models preferred and adopted by SANRAL. The widespread non-compliance is indicative of a general dissatisfaction with the transparency around this project. The implementation of the project for then longest time was piggy-backed on the world euphoria as it was regarded as one of the legacy project. Even in the aftermath of the world cup there was no concerted effort to spread the true message about the financing of this scheme. The few consultation forums organised before the project was implemented were not well marketed and were held in arkwardly located venues. The hitherto unheard of rolling juristic disputations are a sign of poor communication by SANRAL and adversarial interactions needing the interventions of the courts.

SANRAL has to formulate an extensive public consultation protocol which has to be legislative in order to ensure compliance. Thus, there has to be proper and deliberate bolstering of the corporate governance in public consultation implementation in South Africa henceforth.

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Section 4

Corporate Governance and Gender Diversity

Chapter 8

Gender Diversity and Corporate Governance

Suwongrat Papangkorn, Pattanaporn Chatjuthamard and Pornsit Jiraporn

Abstract

Gender diversity in the workplace has been an issue receiving a tremendous amount of attention both in academia and in the popular press. The research to date has tended to focus on the obstacles to promotion of women at lower and middle management levels, often referred to as a glass ceiling effect. However, most research on the subject has been mainly restricted to the definition of gender, by biological determination, that is, male and female, rather than by social construction. This chapter addresses the impact of gender diversity leadership and firms' performance. In addition, it offers a synopsis of selected research examining the LGBT-supportive workplace policies and firms' outcomes. Further, the chapter identifies priorities for future research that can advance our understanding on this research area, and the broader field of financial studies, encompassing the growing interest in the boundaries between the economic, the psychological and the social areas.

Keywords: diversity, gender, corporate governance, corporate boards, board composition, LGBT-supportive policy

1. Introduction

More than two decades after the United Nations' Beijing declaration and platform for action pledged to take the necessary steps to remove all hindrances to gender equality and the empowerment of women and LGBITQ+, support for gender equality is lacking effective action to boost women's representation at the tables of power. Although in year 2020 all the companies in the S&P 500 had at least one female director, women still only represent 28% of all board directors [1].

Gender diversity in the workplace can bring both benefits and costs to the firm. A voluminous body of literature suggests that board gender diversity brings unique perspectives to the boardroom (for example, see [2, 3]). If a diversified board can bring a broader range of backgrounds among directors, then a more diversified board will collectively possess more information and will have a higher chance of making better decisions. In addition, the diversity of the board can enhance the board independence, and consequently increased board diversity could lead to a better board monitoring function (for example, see [4–9]). At the same time, board gender diversity also gives a positive signal to stakeholders that the company cares about the societal diversity in their governance (for example, see [10–12]). On the other hand, a diverse board may cause higher decision-making costs in boards and increase the likelihood of conflicts and friction in boards [4].

Nevertheless, gender is much more than biological differences between male and female. It is socially constructed characteristics of men and women, such as norms, behaviors, and roles that a society considers appropriate for men and women. It varies from society to society and can be changed. Today, LGBT people are more accepted than ever. This is also true in the business world. Many companies around the world have started to create LGBTQ-friendly parental policy. Recently, several academic studies have also focused on LGBT-supportive policies. Prior studies find that LGBT-friendly policies provide both human-resources-related benefit and financial benefit (for example, see [13–19]). However, there is some evidence suggesting opportunity-seeking managers may use this policy for their self-benefit, particularly their compensation [20].

In the following sections, we review the literature on gender diversity in two key areas, which are theoretical perspective and impact. Section 4 presents a discussion on why there is inconclusive evidence on the relationship between board gender diversity and a firm's performance. Following this, the chapter discusses current literature on LGBT-supportive policies. Section 6 suggests the direction for future research. Lastly, we end with the concluding remarks.

2. Gender may not identify as exclusively male or female

Traditionally, the terms "sex" and "gender" have been used interchangeably, but their uses are becoming increasingly distinct [21]. In general, the term, "sex" often refers to biological differences between male and female. It is something that remains fixed, natural, unchanging, and consisting of a male/female dichotomy. On the other hand, gender is a social construction relating to behaviors and attributes based on labels of masculinity and femininity. Sometimes, a person's genetically assigned sex does not align with their gender identity. These individuals might refer to themselves as transgender, non-binary, gender fluid, or gender nonconforming. Thus, gender may not identify as exclusively male or female.

Although biological sex and the social construction of gender are not equivalents, the close association of gender and sex and the normative demands of conforming to sex-gender stereotypes for social recognition means that both the female sex and feminine gender are likely to be treated as equivalents and equally face discrimination. Furthermore, some also struggle to reconcile their sexual orientation with their gender. Thus, most researchers still use the proportions of male and female in companies as a proxy for the gender diversity, while others use corporate policies regarding gender non-discrimination policies as a proxy for working environment gender equality.

3. Gender diversity and leadership

> *"In the future world we will have a lot of women leaders… Because in the future, people will not only focus on muscle, power, but they will focus more on wisdom. They focus on caring and responsibility."*
>
> *-Jack Ma-*

As the benefits of gender diversity become ever more apparent, companies are working to close the gender parity gap within the organization and try to gain benefits of gender equality across their organization. At the same time, gender equality in the workplace is also an important issue for policymakers. For instance, two years ago, California passed a law mandating that publicly traded companies based in

California are required to have at least three female directors on their board. Many countries in Europe also impose board gender quotas and propose policies requiring board composition disclosure [22].

Despite the social pressure on gender equality, a diverse range of academic literature does not explicitly develop a theoretical framework explaining the gender gap in leadership. At the individual level, theoretical perspectives tend to focus on the characteristics of directors and their stereotypes, while at the board level, theoretical perspectives tend to focus on group-level processes.

3.1 Individual level

Today, people still struggle with their sexual orientation, and they often face prejudice based on their stereotype. According to McKinsey's women in the workplace 2020 report, the underrepresentation of women and women of color in senior management cannot be explained by attrition alone. Black women are more likely to have been laid off or furloughed during the COVID-19 crisis [23]. Also, gender stereotyping fosters bias against women in managerial selection, placement, and promotion, and training decisions [24].

Stereotyping is a cognitive process in that it involves associating a characteristic with a group (for example, see [25, 26]). It does not represent an abnormality in human social behaviors and values because it is simply the nature of people to develop ideas about other people and their behaviors based on our understanding and expectations of self. Stereotyping can be taught or reinforced to people through many different social interactions and influences.

Traditionally, the most appreciated leaders possess characteristics commonly associated with masculinity, such as competitiveness, self-confidence, ambition, and aggressiveness (for example, see [27, 28]). Unsurprisingly, male leaders dominate the world of business. Yet, in the past, researchers have shown that many masculine traits did not always benefit the companies. Some researchers argue that female leaders have important traits, such as warmth and empathy that are useful during a crisis. Consequently, the tendency to prefer female leaders over male leaders is likely to increase under conditions of organizational crisis (for example, see [6, 29]).

Female executives lead differently than male executives (for example, see [5, 30, 31]). Female executives tend to be collaborative and enhance participative decision making (for example, see [32, 33]). They are often described as using the style to motivate followers to change self-interest into group interest through shared concern for key goals. In addition, female executives care more about universalism and benevolence than male executives, and less about self-enhancement values such as achievement and power [34]. Women increase emphasis on their cultural capital to negotiate male-dominated networks and maintain their high-status positions through such measures as obtaining advanced educational degrees or modifying speech and behavior [35]. These traits enhance decision-making processes based on the diversity of ideas, brainstorming and consensus that increases cooperation during crises.

It is also argued that female executives behave like men in order to succeed. In contrast to female stereotypes for the population, female directors are more risk loving than their male directors [34]. One well-known research conducted by Adams and Ragunathan [36] suggests that gender stereotypes are influential in finance, constraining women to reach top positions in banking and sustaining a strong masculine culture. They document that banks with more female directors appear to take more risk than banks with fewer female directors. At the same time, the research also indicates that on average the women who make it to the top tend to perform better than men, in particular under uncertainty.

Some believe that female leaders are favored in times of economic challenges, not because they are expected to improve the situation, but because they are seen to be good people to take the blame in case of failure. This phenomenon has been coined the glass cliff or an invisible barrier, which inhibits the progression to higher levels of an organization's hierarchy [29, 37]. People have the perception that the suitable leaders of unsuccessful companies were associated with the female stereotype [38]. Along the same line, some studies show that the negative relationship between women's presence on boards and stock performance is because of investors' stereotypic beliefs about women's lack of competence and unsuitability for leadership [39].

In short, although there are lots of campaigns and social pressure to raise the gender equality and change the perception of people with respect to gender, there is still some evidence indicating that people prejudge others based on their sex and not on their true capability.

3.2 Board level

There are two main theoretical perspectives in the corporate finance literature underlying the rationale for favorable board gender diversity. The first theory is agency theory. It is based on the assumption that there is a separation of ownership and management that leads to costs associated with resolving conflict of interest between a principle (i.e., shareholders) and an agent (i.e., a manager). To mitigate agency cost, firms apply several corporate governance mechanisms such as law, incentives, shareholders' right, and monitoring [40]. And the board of directors is considered to be one of the important mechanisms for controlling managerial behavior and mitigating the agency problems in the firm. They are usually elected or appointed by shareholders, and they represent shareholders of the company. The board is tasked with making important strategic decisions, providing the leadership to put them into effect, monitoring, and supervising the top management on behalf of shareholders. Many studies have sought to examine the board quality in various aspects, particularly their impact on firm value and other corporate outcomes. Diversity of the board is one aspect used as a proxy for board monitoring effectiveness [4–9].

In social psychology, researchers believe people usually seek to surround themselves with people who share similar background, perspectives, and values, which are then reinforced in intragroup communication. Looking from this perspective, many researchers believe female directors are breaking out of the "old boys club" and thus introducing a more independent perspective [4, 5]. The board with a greater proportion of female directors will be better able to monitor self-interested actions by managers and will thereby minimize agency costs. It has also been observed that female directors are tougher monitors than men. In addition, a female director is more likely to classify as independent than a male director [4]. Firms with a high proportion of female directors tend to be associated with higher chief executive officer (CEO) turnover sensitivity, fewer board attendance problems and better board monitoring [4], and more transparent information disclosure [7]. Plus, female directors are more likely than men to ask questions and raise tough issues [8]. Other work indicates that boards with more female directors have better oversight of management reporting that improves the quality of earnings [9]. In short, female directors improve board monitoring quality and so enhance corporate governance control.

Some also believe that individuals consider themselves and others as either in- or out-group members and are more likely biased toward in-group members, making it more difficult for out-group individuals to join these groups. Consistent with this perspective, researchers describe how CEOs, who are mostly men, are more likely to lead boards composed of like others, of similar gender, as well as age, background, and experience. Similarly, the recent findings suggest that male directors categorize female directors as out-group members and may have a negative social bias toward their board appointment and their election to major board committees [41].

Another stream of this literature argues that there may be some critical number of female directors on board that makes a difference, and which could also have an impact on cultures. A female director is considered a minority in the boardroom. She realizes that her behavior is scrutinized, and she will be very careful in choosing when to speak up, while when there are two female directors in the boardroom, they can help to dispel the notion that either of them is raising the women's point of view. Additionally, women feel they are belonging to the same group so they can feel less isolated. Although two female directors are generally more powerful than one, it takes three or more women to achieve the critical mass that can cause a fundamental change in the boardroom and enhance corporate governance [42]. In a similar vein, Post et al. [43] also suggest that the number of female directors matters. Firms with at least three female directors received higher Kinder Lydenberg Domini (KLD) strengths scores.

The relationship between female directors and CEO has also received much attention. From an agency perspective, the separation between director role and CEO could lead to a reduction in opportunity for a powerful CEO to dominate the board [44]. Boards are held responsible for maintaining firm performance and appointing the CEO is one way in which the board is directly tied to firm performance [45]. Female directors have been found to contribute to governance, reducing CEO power due to their independence. A recent finding suggests that firms with female directors are less likely to hold deep-in-the-money options [46]. The representation of female directors could reduce male CEO overconfidence, especially in industries where high overconfidence is more prevalent. Along the same line, the empirical evidence suggests that there is a relationship between the board gender diversity and the likelihood that a firm will appoint a female CEO. The firm with high female-friendliness has a higher likelihood of appointing a female CEO [47].

Thus, from an agency perspective, board gender diversity could lead to higher independence of directors and the balance between executive and non-executive directors on boards. Boards with high gender diversity could provide a better board monitoring function on behalf of the shareholders. Nevertheless, there is some evidence suggesting that the critical mass of at least three female directors also matters. Any number less than the threshold will mostly result in tokenism, where females on boards are seen as tokens with insignificant impact on corporate decision-making [43, 48].

Another important theory relating to arguments in favor of board gender diversity is the resource dependence perspective, which suggests that directors are appointed to boards in order for the firm to acquire critical resources. Part of the resources that directors bring to the boardroom is their human and social capital. Human capital refers to the individual's set of skills, knowledge, and reputation, which are typically developed through investments in education, training, and prior working experience. Such experiences shape directors' thinking, frame of reference, and perception. The greater the diversity of experience, the greater the potential for understanding problems and consequently better board decision making. Consistent with this notion, Carpenter and Westphal [49] demonstrated that the background and experience of board members is crucial for effective monitoring.

Some believe that females tend to devote more time to housework and childcare, which could result in inferior skills compared to males. This belief could imply that the human capital gap widens as males spend more time in the labor market. However, this belief confronts much criticism from many researchers. The recent empirical evidence shows female directors have accumulated human capital fairly similar to their peers in terms of education, reputation, and board experience [35, 50, 51]. Education is a way to acquire directors' expertise and enhance directors' cognitive skill. Directors with higher education could have a greater impact during board discussions. Prior studies show that a positive relationship between board gender diversity and firm performance is mainly driven by the higher education of female directors [52]. In the United States, female directors are more likely to hold advanced degrees than white males. Similarly, one study by Singh et al. [51] examined multiple human capital dimensions of new appointees to corporate boards in the United Kingdom. They point out that new female directors are more likely to have MBA degrees and international experience than new male directors. Dunn [53] also shows that specialized knowledge skills, such as education, expertise, or business experience, are relevant for a female director appointment. Furthermore, female directors are more likely than males to be support specialists and community influencers [50].

Directors' human capital can be an informational signal to stakeholders about the organization [54]. Firms can enhance their reputation and legitimacy by appointing female directors to the board [11]. The gender diversity in leadership positions communicates that an organization is committed to a tolerant workplace environment in which employees are not discriminated against due to their gender identity. Furthermore, researchers show a higher representation of female directors signals the increased commitment of a firm to a positive working environment and quality employment characteristics [10].

The representation of female directors is linked to organization size, industry type, firm diversification strategy, and the network effects of linkages to other boards with female directors [55, 56]. Female directors are less prevalent in firms that deal with infrastructure, energy, or electronics. In some industries, it is possible to advance a specific business case for increasing female representation in leadership roles, most notably, in companies that have more diverse workforces, or their target market is mostly women [12]. This notion has coined the phrase "women understand women." Having a feminine perspective may be particularly valuable in such industries. Furthermore, it could give a positive signal to stakeholders that the company understands what women want. In contrast, some also believe that only a small number of companies have gone so far as to change management structure for their particular products, services, and business operating environment.

Women are also more aware than men about corporate social responsibility (CSR) [33, 48] and have a better reputation in the eyes of other managers and stock market analysts [57]. Thus, a woman who holds an executive role at a company may raise the firm's reputation, even if the firm has not historically been motivated by corporate social responsibility. In other words, the board gender diversity can send a positive signal to both internal and external stakeholders [10, 11].

Nevertheless, the favorable perception toward female leaders may not be widely accepted in society. There is evidence suggesting that appointing a non-prototypical leader is a signal to stakeholders that they are undertaking change [58]. It is also possible that the appointment of a woman to a senior position is interpreted by investors as a signal of organizational difficulties or decline [54]. Consistent with this notion, research evidences a negative short-run market reaction to the appointment of female executives, suggesting that female executives are less informed than their male counterparts about future corporate performance [59]. However, in the longer term, market participants began to recognize the benefit of female executives for future corporate performance.

Another valuable attribute that directors can bring to the boardroom is social capital. Social capital or relational capital in the context of governance refers to an individual's ability to bring information about the external environment, other firms' strategies, and prospective managerial talent through their networks and relationships [54]. Directors who broadly network with outside groups will have greater social capital because they have easy access to relevant strategic knowledge and perspectives [49]. Similarly, directors who have an external network tied to relevant organizations can provide better advice and counsel. Ultimately, these ties can impact firm performance.

Directors who are broadly connected to outside groups will have greater social capital because they have quick access to information, diverse ideas, and critical resources [60]. It also enhances directors' experience [49] as well as permits the executive to establish a network or to monitor business relations [61]. In other words, the greater the number of ties a director has to other firms, the greater the information and network benefits for the firms. The empirical evidence suggests that female and minority directors have more multiple board seats than males [56, 62].

In summary, female directors tend to have different education backgrounds, professional experience, and personal networks from those of male directors and may be more aware of corporate social responsibility. As a result, the more gender diverse board may help ensure that more perspectives and issues are considered in the decision-making process, leading the board to achieve better decisions.

4. Board gender diversity and firm outcome

Although there is social pressure for gender equality and promotion for a diverse gender board, the empirical evidence on the relationship between board gender diversity and firm performance is inconsistent and the results ambiguous (for a meta-analysis, see [5, 30, 31, 63]). This section discusses various potential causes of these mixed results.

From the theoretical perspective above, one may suppose those female directors appear to reduce agency costs, facilitate access to untapped resources, and improve performance. Consistent with this viewpoint, Carter et al. [64] investigate the relationship between the percentage of female directors on boards and Tobin's q for a sample of 638 U.S. Fortune 1000 firms. They conclude that there is a positive relationship between the percentage of female directors on the board and firm value. Bennouri et al. [65] use multivariate analysis to test the relationship between the percentage of female directors and several measures of financial value (e.g., return on assets (ROA) and Tobin's q). They find gender diversity is positively associated with accounting-based performance measures, but not statistically significant related to Tobin's q. These findings suggest that the interactions between gender diversity and firm performance are not uniform across various measures of performance.

Another explanation for these inconsistent findings is related to methodology [66]. For instance, some researchers, such as Ahern and Dittmar [67] and Matsa and Miller [68], use quota for female directors as a natural experiment. They treat an increase in board gender diversity as an exogenous event. Nevertheless, the gender quota was first discussed in 1999 and firms were given two years to adjust; thus, this law gives too much freedom to define it as the shock [66].

The literature shows that the effects of board composition on firm performance vary among different environmental conditions [30]. In the context of weaker investor protection, board diversity has higher influence on firm performance. Each governance mechanism has its costs and benefits, resulting in the interrelation between governance mechanisms [69]. Firms with weaker investor protection require a tougher monitoring to protect the shareholders' rights. The finding of Bennouri et al. [65] supports this notion. They show a positive association between accounting performance and female directorship in a low investor protection environment. Similarly, the economic condition could be another explanation for these inconsistent findings. In periods of economic adversity, firms needed tougher monitoring and more diverse advice than they would normally need, thereby emphasizing the importance of board gender diversity [6, 29].

Another reason for the conflicting evidence on board diversity may be the ownership structure. Prior studies indicate that the concentrated owners have the means and incentive to monitor the top management effectively [70]. Likewise, Vieira [71] shows the relationship between gender diversity and firm performance differs between family owned and non-family owned firms. Specifically, she finds that female directors have a more positive impact on the performance of family firms relative to non-family firms.

In short, although, the benefit of board gender diversity is ambiguous and unclear, it is better to focus on potential benefits to society that go beyond a narrow indication of firm profitability. Further research on the impact of board gender diversity on firm performance is likely to generate new insights about the potential costs and benefits associated with having a gender equality board.

5. LGBT+ and firm

In 2007, the former CEO of British Petroleum (BP), Lord John Browne resigned from the company where he had worked for four decades after being outed as gay by the tabloid reports of a former lover. He said he had decided to leave now to "avoid unnecessary embarrassment and distraction to the company". As soon as Browne handed his resignation letter, BP shares edged upward from $67 to just under $69 [72].

In the nine years since then, things have changed at a dizzying pace. Society has changed its perception about the LGBTQ+ people. There is a much greater acceptance of LGBTQ+ people and their rights; marriage equality has been achieved nearly all around the world. In 2014, Apple CEO, Tom Cook publicly acknowledged his sexuality, saying that he is "proud to be gay". But Cook's decision to announce did not have much impact on Apple stock. The stock price was virtually unaffected [73].

Not surprisingly, a large number of corporations have considered creating a positive working environment for LGBTQ+ people by introducing LGBT-supportive corporate policies. For instance, Accenture partners with the UN to help operationalize the UN's LGBTI standards of workplace equality. In addition, they also research the advantages of an LGBTQ-inclusive workplace. Researchers also have become increasingly interested in LGBT-related issues. Recent research has focused on potential financial benefits to corporations for implementing LGBT-supportive corporate policies. LGBT customers often have a higher disposable income [13]. They are more likely to buy products from a LGBT-supportive company [74]. It has also been documented that firms with an LGBT equality policy give a positive signal to customers, resulting in higher customer satisfaction both directly and through enhanced marketing capability [14]. LGBT-supportive firms enjoy better credit rating than do non-LGBT supportive firms [15]. Also, a few studies have support for the hypothesized positive association between these policies and financial outcome [13, 16, 17]. At the same time, in terms of human-resources-related benefits, firms with LGBT-supportive policies have a less stressful work environment [18]. Consequently, LGBT-friendly firms tend to have lower employee turnover [19].

Other studies have highlighted the linkage between board structure and LGBT-friendly policies. The opportunity-seeking managers may adopt a favorable working environment policy to enjoy higher compensation through pay-for-performance measures such as bonus or through stock option exercise. Kyaw et al. [20] documents firms with high CEO influence over the board, measured by co-opted board, tend to impose LGBT-supportive policy. Additionally, their finding suggests CEOs use LGBT-supportive policies for self-benefit, in particular, higher compensation.

To summarize, the above findings on LGBT-supportive policies indicate that such policy enables a friendly working environment, which in turn motivates and improves firms' human capital. At the same time, LGBT-supportive policies can be bad for the firm if they are used as a mechanism by managers who want to appear open minded and ethically correct.

6. Future research

To further develop our understanding of the field, there is still clearly a pressing need for research that could help to explain the inconsistent findings observed across previous studies of the relationship between female directors and firm performance, especially under various economic conditions and multi-country studies to supplement the mainly single economic environment condition. This work can enrich our understanding of the impact of board composition on different scenarios.

The COVID pandemic exposed fault lines of gender equality, leaving women to bear the burden of unpaid work as well as being more likely to be laid off or furloughed. This could be a good opportunity for researchers to investigate the impact of COVID on the relationship between gender equality in the workplace and firm's outcome. For instance, how do gender-equality-friendly policies affect a firm's outcome during COVID? In addition, the researcher may consider investigating the relationship between boardroom gender diversity and stock price during the COVID pandemic in various market environments.

7. Conclusion

Despite unprecedented global challenges, gender equality in the workplace has been far too slow and uneven. Most stakeholders recognize the importance of different kinds of educational backgrounds and functional expertise, but they tend to underestimate the benefits of gender diversity. Achieving board gender diversity is likely to generate positive externality. The implementation of gender equality supportive policies, such as appointing females in senior management roles and implementing LGBT hiring campaigns, can give a positive signal to both employees and investors. Ethical postures of this kind have proved to be contributory in building relationships with other stakeholders, which in turn help build the firms' reputation and value creation. Furthermore, from the agency perspective, the board gender diversity could lead to higher independence of directors, resulting in a better board monitoring function on behalf of the shareholders. In other words, board gender diversity could reduce agency cost of the company and again, potentially lead to better firm performance. Firms with gender equality supportive policies tend to provide a less stressful work environment and have lower employee turnover, which in turn enhances human and social capital of the company. Nevertheless, these benefits also come with costs. In some cases, managers may adopt gender equality friendly policy for their own benefit. This leads to several interesting avenues for future research.

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Chapter 9

Entrepreneurs/CEOs' Factors of Production and Core Elements of the Firms/Entities

Alexandru Trifu

Abstract

The approach is taking into account the fact that Entrepreneurs and, broadly speaking, the CEOs are ubiquitous, a characteristic of the market that can never be absent. It is considered a modern factor of production, along with the classic ones, as land, labor, and capital. For our purpose, we consider a factor of production any resource needed for the creation of an economic good, or service, in order to make, finally, profit. In this respect, both owners/entrepreneurs and CEOs are considered a decisive factor of production because, by their skills, knowledge, and abilities, they create and add value to the firm/corporation. We used the quantitative research, consisting in the study of the practices and experiences of the firms, ownership and management in order to synthesize that the Entrepreneurship and CEOs' existence are intrinsic and vital to economic businesses. The results prove that it is necessary combining in original and efficient manner the skills and knowledge of the Entrepreneur and CEOs to get profit and the sustainability on the specific market. These challenges demand quick and appropriate answers from entities. Therefore, the theory of the firm, the theory of entrepreneurship has to be developed based on these new realities and folded on the main form of organization.

Keywords: factors of production, entrepreneurship, CEO, skills, knowledge, profitability

1. Introduction

1.1 General approach of the theme

The problem of *the factors of productions* is one the most important and sensitive topics of the Political Economy/Economics. In fact, it's about a pillar or a reinforced structure of the classic economic theory and practice.

In short, we intend to highlight the importance of the entrepreneur, along with importance of the CEO, as determinant factors of nowadays entities/firms.

Indeed, we take over one of the main ideas of the French classic thinker Jean-Baptiste Say (1767–1832) regarding the crucial role of the entrepreneur within a manufacture (at that time), at present corporations/firms.

Based on Say's theory [1], *the entrepreneur* is the person introducing the assets, specifically organizing the production or serviceactivities, *takes business risk* (our emphasis) in an uncertainty environment, ultimately running for profit and sustainability necessary to continue to produce goods or to provide services.

The pure profit belongs to the entrepreneur/owner, being considered as the difference between uncertain initial profits and certain incomes of service owners (the workers, capitalists, landowners) who do not want to face uncertainty. We face the opposite thinking about this problem, that is Kirzner's one, presenting the term of "pure entrepreneur," the person who owns no capital and sees the profit opportunities to gain both himself and the entity. In sum, the pure entrepreneur is that one who buys cheap and sells dear, in other words, buying something for less than he/she will be able to sell it for [2]. We are in the presence of *the entrepreneurial discovery theory* which tries to highlight the market phenomena, its disequilibrium, and permanent challenges and changes based on entrepreneurial decisions (CEOs' decisions we add) in an uncertainty and risk environment.

An example in this respect is Alan Yau from Hong Kong, now in the United Kingdom, an entrepreneur who, following his entrepreneurial dream succeeded, setting up the Wagamama restaurant chain, with no bank help, but supported by private investors who believed in him and in his culinary passion to discover new products and new opportunities from all over the world [3].

The theory translates to the trends in today's economy, such as digitalization, the power of information, the *discovery* (our emphasis) *of new methods and techniques* to be used for increasing the value of the activity, to facilitate the work of employees, and not only to get profit and satisfaction for all participants to the entity's activity.

For the purpose of the present paper, we may say, in opposition to Kirzner's opinion, that the knowledge (the open mind), the positive thinking, skills, and abilities of the active heads of the firm/corporation determine the choice made and the decision-making process. Also, there are necessary incentives in order to discover more and *to produce opportunities*, which can be exploited. Israel Kirzner considered that the act of choice is nothing but computing the solution already implicit in the data.

Of course, in the decision-making act, there are involved the well-known methods/criteria, such as Wald-von Neumann, Hurwicz, Laplace, Bayesian model, and others.

The entrepreneur identifying himself/herself with the firm/corporation [4]. That is the problem regarding *the Entrepreneur*. BUT, now, we face with entrepreneurs also in the role of CEO and CEOs' managers and CEOs' leaders who enlarge the problem analysis and, at the same time, enlarge the content and meaning of the modern factors of production.

That is more than 100 years ago. Nowadays, the role and responsibilities of CEOs become decisive for the existence of any type of companies/organizations. That means leading the development and execution of each and every function for medium and long-term strategies/objectives, passing through a behavioral function of a firm, *with the supreme goal of getting profit and increasing shareholder value* (our emphasis, to sustain the proximity of the meaning of the term factor of production). The Theory of the Firm is very important for Entrepreneurs/CEOs reverse action in this double-ways relationship from the patrimony of the theoretical achievements in the field. It is the reverse action in this double-ways relationship [5].

The entrepreneur business thinking, continued by the Chairman and CEO, involves tolls and responsibilities, which vary from a company to another, depending on the profile, structure, and size. For example, in smaller firms, the CEO is making lower-level business decisions, is more implicated in the diverse functions running of the firm, while in the larger companies, the CEO follows the strategies and, even, tactics in accordance with the plans established and makes major decisions for the firm/company.

The ownership as a reason to be for each and every business has to include, in order to be efficient for the whole enterprise/firm system, *competence, incentives, control*. That is the main stage of firm/company cycle of life.

In this respect, speaking about *competence*, we face with reality of different levels or degrees of it. There are entrepreneurs with money, assets, other of them with the capacity of getting loans. In services, or IT sectors, there are entrepreneurs, many of them self-employed individuals, who are putting in practice innovative ideas, new software programs, meeting the market requirements, or to cover some niches that demand their products or services.

After that, it begins the real and cruel management. If, one of them is following only to get profit and to fill their pockets, the business will not resist and the bankruptcy will occur.

What it matters is the professional and applied incentive view of ownership, in order to maximize the value of the whole entity, which means all the other factors of productions used.

And, synthesizing, the portrait of the entrepreneur made by French author Jean Marchal (1951) presents him/her maybe the most important factor of production in moving the capitalist system, but in the sense of adding knowledge, value, new opportunities (our competition) [4].

Secondly, regarding **the CEO** (Chief Executive Officer), indeed, we consider that he/she is the overall leader of the company, the highest ranking individual within a company. **The CEO** is considered a valuable and current factor of production, because he/she has the power and possibilities to ensure the overall success and added value of the business, by his/her knowledge, skills, and capabilities. Furthermore, his/her importance lies even in the fact that they have the ultimate and decisive authority in making decisions [6].

In some authors' opinion, CEO is the epitome (a symbol) for leadership [7]. He/she is in the frontline of the firm/company facing challenges and constraints, both internal and external of the firm/company. Indeed, running a transnational company, an economic giant, is extremely difficult task and involves many features of character, including the knowledge of what is happening within that entity and its relationships with the business and natural environment.

We try to highlight, for the present analysis, the more important roles and responsibilities of nowadays CEO. The image of the CEO, in this hypothesis, includes [8]:

a. Communicating, on firm/company behalf, with shareholders, government institutions, people;

b. Implementing the company vision or mission;

c. Evaluating the work of the other executives/managers of the company;

d. Ensuring the high level and awareness of the social responsibility within communities;

e. Monitoring the risks and their possible (negative) impact on company's strategic vision.

Mandatory, it is needed to complete the image, roles, and importance of the CEO, exactly as a decisive factor of production, by presenting the so-called dimensions of CEO in the economic architecture [7]:

1. First of all, we talk about *the direct influence* of the CEO:

    - The CEO is involved in numerous activities and makes many important decisions;

- Mainly, the CEO works with the other managers and employees, in order that the activities to be well done;

- A proactive posture is required, presenting the future steps of the development'

- The CEO has the responsibility for the decisions made, focused on the tangible and non-tangible assets;

- The CEO holds the formal power, renewal, and reinforced by his/her competence and all the features of character.

2. Interesting are the *indirect influences* of CEO:

- The CEO reacts and responds to events and crises that occur, which have negative impacts on entity's activities;

- The correct communication to all receptors;

- CEO's influence lays on legitimacy, based on his/her character, and the trust needed from employees through their values and commitments to the organization.

Effective and responsible CEOs are thinking about the good internal functioning of companies and even learn about how to manage time and all the company's tasks.

Regarding the involvement of the entrepreneur/owner, when it's about startups, SMEs (small and medium-sized enterprises), direct influence is exercised and where the owner is also an executive active head, this one has to be in the benefit of the entity, not only in owner's benefit. Many cases reveal the fact that after getting profit and a name on the market, the entrepreneur decides to close the business, not thinking about the internal and external consequences.

During the time, there were studies, analyses regarding the relationships between corporate governance and financial performance, which allow the well-functioning of the entity and sustainability on the specific market.

The important discussion is that of the necessity of separating the CEO role and that of the Chairperson of the Management Board. The last one is responsible for protecting the investors'/shareholders' interests and for understanding the entity as a whole [8]. The Chairperson is, technically speaking, superior to the CEO, because in any situation or circumstances, the CEOs cannot make the major strategic decisions *without the approval of the Board* (our emphasis). The CEO, as manager or leader as well, is running the day-to-day company/firm activities, we must say tactically, being more flexible, whilst the Board of Directors meets several times a year taking in discussion the medium and long-term objectives, reviews the financial results, and evaluates, step by step, the performance of the management and, implicit, the company's performance. But, a good corporate governance prescribes the separation of duties into these two functions. The judicial practice in the United Kingdom and other states provides as illegal that the CEO and the Chairman of the Board to be the same person. By consequence, the organization chart provides this separation.

Furthermore, that's why, even from 2004, Belkhir [9] considered the necessity of the separation of functions between the CEO and the Chairperson.

Of course, starting from the banking system analyzed by M. Belkhir; but, as we'll see in the paper's corpus, the chairman and CEO successfully cumulate in the same leading person.

So, based on the *stewardship theory*, a person in the both functions, chairman and CEO, can improve firm's/company's performances, because this situation eliminates any internal ambiguity and weakness and strengthens the responsibility for the actions and results of the firm/company [10].

In the specific literature, there are also analyses regarding the co-relations between the age of the CEO and the firm/company performance. Serfling [11], for example, considered that younger CEOs are open to innovations and means to improve their activities, while older CEOs are not inclined to investments and create agent costs in the company. Also, the author's analyses reveal a negative relationship between CEO age and the stock return volatility. The higher volatility of an asset, the riskier it is considered.

Further, the importance of the persons in charge with the good running of the company/firm is illustrated by the colloquial and respectfully appellation of *the Big Boss.* On short, *the Big Boss* is the person ultimately in charge of an enterprise (such as *the active head of business enterprise*—our emphasis) [3]. A business owner title is that one used by the main persons in charge of a business and because the roles of the generic called owner are diverse, the title of this owner should reflect that (examples: Owner, CEO, Chairperson, President, Founder….). For a better understanding of who is and what is an active head of a company, all these titles were detailed in an article by Indeed Editorial Team [12].

To exemplify what is a *Big Boss*, we choose the example of Lionel Souque, who manages the 60 billion euro of German first-ranked retail company, Rewe [13]. The situation of this company is also interesting, being a private cooperative, a joint stock company in tourism and retail domains. This head of the company knows very well how to attract other firms within a fruitful collaboration and, overall, to increase the value of the company and its perspectives.

Based on such ideas and actions, we may say that a very important theme in Economics, regarding the *Theory of the Firm*, is that ownership (owners and the level of CEOs, we add an emphasis) is an efficient tool, which, correctly deployed, manages to align incentives among parties and to lead to high economic value creation [14].

As we see, more authors of our days highlight the importance of the *owner* (we add of chairman-CEO or even CEO) competence, the possibility that from CEO or gifted managers to be chosen the Chairman. Or, even vice versa, if owners know better the status of the entity and its place on the market, that firm/corporation has to choose managers from the owners.

Entrepreneurs who took on the risks of creating a firm, more precisely a *startup*, are rewarded with profits, with opportunities and the possibilities to work with giants or important corporations. These ones see the programs, products, or services provided by startups and analyze them as opportunities to find new ideas, even in the early stage and partners (we may say knowledge and abilities) in order to learn how to manage easier and with small shocks the corporation. It is needed of reformulating or restructuring the big company for an organic growth, growth that can be found in their startups' roots or collaborations [15].

2. Methodology

We used a qualitative research, based on examples and information from different written and Internet sources, including my own experience and of my fellow colleagues and friends, regarding the role of the entrepreneur and CEOs in the startups and evolution of the firms, in order to improve communications and the commercial businesses between firms and people. It is a research using non-numerical data in order to understand, in this specific case, concepts, opinions, experiences in the managerial field, which ensure the functionality of the corporate governance in our times.

We think that no quantitative research, based on questionnaires, would have been appropriate to the purpose of the present analysis, taking into account that it is a sensitive and subjective approach.

From the information and experiences received and analyzed, we are able to synthesize and formulate not predictions but, merely, directions of understanding the tight relationship between the Theory of the Firm in its complexity and the factual actions of firms (startups, SMEs, corporations…). The startup firms and SMEs represent the majority of the entities within an economy, especially in the tertiary sector of the economy (services) and the quaternary sector (IT companies). Also, they are the most likely to be hit by the challenges and competition of today's world and to dissolve.

In this case, it needs an entrepreneur, or even a CEO, able to manage the entity to withstand the pressure of competition, but also of political influence. Furthermore, out of competition, we can mention other causes that led to the dissolution of many startups or SMEs: the global pandemic, overcrowded markets, the mismanagement of entities, scaling operations, and others.

3. Particularities and developments of the problem

Corporate governance, in synthesis, means a system of rules, theories, experiences, knowledge, and abilities, experiences by which a firm/corporation is directed and controlled. Corporate governance is a framework, an institution, designed attaining the organizations/firms' objectives, using the factors of production, especially the human resource, in this case, the top management representatives.

In the following, we try to highlight different and significant examples of experiences, which enrich the theory and practice about corporate governance, about the *Theory of the Firm* and, by consequence, of the Corporate Governance theory and Business theory. The *Corporate Governance* world is not understood only by different qualitative/structural aspects, but the refresh of the theory and practice in this respect is needed because the theory is behind practice, something no longer works [16].

Even it is a new area of the Economics, *the Corporate Governance* which benefits from a rich bibliography, but it reveals the necessity of its development and enrichment, from both theoretical and practical viewpoints [17].

Thus, considering the abovementioned reference and others linked to it, or to the problem in discussion, to understand the developments and the practice supporting a sound theory of the Corporate Governance (including the Agency theory and Stewardship theory, among others), we think that it is necessary to review various and large number of situations regarding the role and impact of entrepreneurs and CEOs in the current life and activity of different firms/corporations.

The most remarkable and more than significant example of the role of the CEOs' level as factor of production is that one of the Microsoft subsidiary in Ireland, *Microsoft Round Island One*, "tax resident in Bermuda" and, therefore, which paid zero corporation tax on $315 billion profit for 2020.

And, the significant fact for our analysis is that it has no employees other than directors. Therefore, only *directors* (our emphasis). Their contribution to the welfare of the company and the added value consist of collecting license fees for use of copyrighted Microsoft software around the world [18].

This is the contribution of the skillfully directors to add more and more value, i.e. profit, to the results of the entire Microsoft Corporation.

Based on this situation of easy making money and profit, recently, the finance ministers of G7 decided to introduce a minimum global level of the tax rate on the Transnational companies' profit (TNC) of 15%. This taxation will be made in the country where the profit is obtained, not in the country of the company HQ [6].

However, countries such as Hungary, Cyprus, Ireland, which have around 9–12.5% corporate tax rate, threatened to veto the EU adoption of US proposal, exactly because they are afraid that they will lose the Foreign Direct Investments in their countries.

For example, the so-called "Silicon Six"—Microsoft, Amazon, Facebook, the Google owner the Alphabet, Netflix, and Apple—were deliberately shifting income to low-tax jurisdictions in order to pay less tax (hundreds of billion $).

Another significant example in this respect, even it seems to be exactly the opposite. We speak about *the firms of no bosses*, in fact entities where each and every employee is his own manager and takes after the well-being of the firm.

It's about companies, even successful businesses, which act with *managers-less* or, even more, downsizing the management function to the level of those who were managed. It goes on the idea that employees are more productive and accountant if they control their own activity.

A quite different situation is that represented by some influent CEOs who, based on financial and regulation possibilities/doors, succeeded to sell part of their stock on Stock Exchange and make substantial profit. When Pfizer and its German partner BioNTech announced in November 2020 they obtained the vaccine against COVID-19 as highly effective, Pfizer stocks rose with 7% and, immediately, Albert Bourla, its Chairman and CEO, sold about 62% of the shares with a nice profit of US $ 5.6 million. It was a double favorable financial hit: for the CEO himself, but also for the company, which has proven to be efficient and cost-effective in the race for highly qualitative anti-COVID-19 vaccines.

This financial scheme permitted major shareholders to trade a predetermined number of shares at a predetermined time. And, the positive aspect in this situation is that no obvious evidence about this timing of the shares selling plan and the announcement of the vaccine success [19].

Albert Bourla confirms the uncertainty of the entrepreneur/CEO function and the making decisions in this state of nature but, as we already said, the movement on the stock market was a profitable one, both for Albert Bourla as an individual and for the company. The company is still the most competitive company, by selling, in the pharma industry and the second place in 2020 by revenue $51.75 billion, after Johnson & Johnson with $56,1 billion [20].

Another example of the importance of owner and CEO, at the same time, within the same person: the controversial tycoon Elon Musk. The Tesla and SpaceX entrepreneur and CEO at the same time, Elon Musk is 2rd place in May 2021 in the Top 15 richest persons in the world, with $151 billion, after Jeff Bezos with $177 billion while Bernard Arnault & Family ranks 3rd with $150 billion billion [21]. He is the iconic representative of the innovative and IT developments, following to build devices, machines, space equipment to explore more of the outer space, or to preserve the cleanliness of the natural environment.

He is the example of the strong liaison between entrepreneur status and CEO activity within the same person, succeeding to bring Tesla company to a value around $500 billion. A big secret of the Tesla Company was revealed now by Tesla Owners of the Silicon Valley, and it consists of the air filtration system [22].

Important for this paper is the fact that Elon Musk is the active head and propeller of a technical business (Tesla), which made its first annual profit, a small one compared with Toyota, for example. But, to add value and to compete in the specific market, in the next few years, Tesla Motors with Elon Musk as propeller and his entire crew can make profits, even more, than just about the whole motor industry together.

Not to mention the close connection with his crypto currency, Bitcoin and manipulating its course around the value of $35,000. And this, only by his declaration regarding Bitcoin and the general situation of crypto currencies. A last-minute example is that of his own company, Tesla, which has suspended in this spring the purchase of Tesla vehicle using Bitcoin. This decision is taken due to the high costs of producing Bitcoin and jeopardizing the natural environment.

To complete the image of the variety of firms' manifestation, we must add more examples. Such as, *spaghetti organizations*, which refer to flat entities, project-based, characterized by indefinite/ambiguous boundaries and a strong delegation of tasks and responsibilities to autonomous teams. This case mandatory has to be linked to the well-known case of Danish company considered, at first sight, *kind of company with no bosses.* It's about Oticon company, which, in the 1980s, faced increased competition from the corporation such as Siemens, Philips, Sony. Lars Kolind became in 1988 the iconic CEO of the company and, in order to stop the losses of the company, thought a revolutionary plan of restructuration of the company, a new way to think business [23]. He invented the term "Spaghetti Organization," a more flexible, adaptable, and focused on the goals proposed. It is a knowledge-based organization, using teams, projects, multiple roles, following the rules of the free market. He fought to convince the owner (a foundation) for the necessity of radical changes within the company, changes based also on Kolind's abilities as workers' scouting.

We may speak about a chaotic network, with multiple centers (project teams) acting toward innovation and providing the right and useful information. The fruitful and valuable activity of Kolind as head of Oticon during a decade was materialized in a sound profitability situation for Oticon.

At the same time, this example, also a relevant one for the understanding CEO as a factor of production, was used by the management writer Tom Peters in his 1992 book *Liberation Management* [24].

Starting from Kolind's idea of doing something radically different, or much different, compared to the giants, we can add the term of *Ricotta Organizations*, where we deal with different professionals, experiences, abilities, it is possible to obtain a new structure malleable and adaptable (ricotta is a creamy cheese), which is used in various domains. Hence, the entire functional structure has the capacity to quickly adapt to the new situations, opportunities.

Further, the experience developed by Valve Software Company, which, for 20 years, operates with no bosses. Founded in 1996 by Mike Harrington and Gabe Newell, this company existed and functioned with the employees having a large range of maneuver, following the path of innovation and of creation. The work is done through projects and by teams, teams heaving a "leader," which coordinates the work [14]. Due to the liberty in movements and in making decisions (even hiring the smartest, most innovative and talented people in the field), Valve Software became a successful firm, with minimum managing organizers, providing the fact that the increase in labor productivity is based on the free feeling of employees and the quality of their work and their motivation.

Another type of firm is considered *the company-platform.* Netflix is the symbol in this respect. It is an innovative company, a subscription-based streaming service. This is the source of the revenues of the company: the own production of movies and TV series to the subscribers (around 150 million all around the world). The Chairman-CEO of the company is Reed Hastings, one of the two cofounders of the firm in 1997, along with Marc Randolph. But, technically speaking, the specialists consider that Netflix is not a platform, but a linear TV channel with a modern interface. And it creates and licenses all its content [25].

No matter we are dealing with "*spaghetti organizations*", *platform-type companies*, or even firms with *no bosses*, startups, and corporations (see [26]), *the necessity is that owners and, especially, the CEOs are indispensable for the organizing and functioning of the considered entity.*

4. Conclusions

As a result of the present analysis, based on observations, a firm/corporation is an entrepreneurial or multiple owners and CEOs entity, in which these persons, by their knowledge, skills, abilities, and assets, are capable of running different businesses, in the manner of getting profit and adding value to the entities on the market. Especially now, during pandemics and after, the entrepreneurs experiment different combinations of organizational characteristics and face challenges of the natural and business environments.

The owners, as their name implies, even they are at different levels of managerial competence and understanding, are called to consider the strategic aspects of the business, while CEOs follow the tactical aspects of the activity and the necessary corrections. All their work and efforts toward increasing the value of the firm/company and get profit.

Important for the *Theory of the Firm*, for the *Theory of* Corporate, is the necessity of regarding how firms, no matter their size, managerial structure, and power, adapt to economic and natural changes and how firms can be more entrepreneurial and innovative. Therefore, important are two elements of the performance of owners and CEOs: *what to own (matching competence)* and *how to own (governance competence).* That is, the quantitative aspect—assets and the business contributions—and the qualitative aspects linked to the personality and qualities of the top ownership and management. The ownership competence, generally speaking, increases with experience, with the level of difficulty of the decisions taken, even taking into account a genetic background.

The firm and the entrepreneur (and the executive officer) are needed to answer and to focus on two major questions/problems: a. How the specific market works and the competition in the field?

b. What is the relation between active head of the firm/company and the rest of the entity as a whole toward getting profit?

In addition, we can add the following one: c. How the entity reacts to the challenges from inside and outside it and put into practice the results of the managerial mechanism and reconsider the design of the firm/corporation (if necessary)?

In addition, it could appear the danger of the politics' influence on firms, especially SMEs, which means to get advantages and propulsion on the market if these SMEs, or other firms, follow the policy of those in power (as we could see from the short example in the text).

Transnational companies, on the other hand, exert an overwhelming influence on the governments of the majority countries (underdeveloped, developing, or even developed economies of the world).

By consequence, we consider that the practice determines the new thinking in the analyzed domain and requires at least sub-theoretical domains, niches, in which to be included the firms/corporations/organizations (as we have tried to present in this paper).

Even if we speak about behavioral aspects of the theory, or of the different functions, actions, and structures of economic entities, finally it appears that entrepreneurs (owners)/CEOs are present as active heads of businesses, following the ultimate goal of the entity, its reason to exist, that is making profit.

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Section 5

Corporate Governance and Sustainability

Chapter 10

ESG for SMEs: Can the Proposal 2021/0104 for a European Directive Help in the Early Detection of a Crisis?

Patrizia Riva, Maurizio Comoli and Ambra Garelli

Abstract

With the proposal for a European Directive 2021/0104, the number of entities who will be required to prepare a non-financial statement (NFS) has been broadened. The directive provides that small and medium-sized enterprises (SMEs) may also voluntarily opt for drawing up a non-financial statement. It is therefore important to identify reporting standards containing key performance indicators (KPIs), tailored to the characteristics and structure of SMEs. In addition to the potential advantages in terms of improvement in relationships with stakeholders, NFI could be relevant for an early diagnosis of crisis signals therefore, an early warning behavior. This paper, therefore, aims to analyze how non-financial information can be a valuable aid to all governance players in identifying those first signs of crisis. In Italy, Organismo Italiano Business Reporting (OIBR) is drafting a document that promotes the use and communication of non-financial information on the part of SMEs with the dual objective of demonstrating that corporate governance structure on the one hand, and management and accounting tools on the other should be adequately designed and functioning so as to prevent a company's exposure to the risk of failing to operate as a going concern.

Keywords: non-financial reporting directive—NFRD, sustainability financial disclosure, non-financial disclosure, non-financial KPIs, crisis, Italian civil (IC)-code, Italy, early warning system, SMEs, family firm, going concern, corporate governance, ESG risks

1. Introduction

With the entry into force of *Codice della Crisi d'Impresa e dell'Insolvenza* (Italian Corporate Crisis and Insolvency Code, Legislative Decree No. 14/2019), new obligations have been set forth in regard to the establishment of an organizational, administrative, and accounting model adequate to a company's nature and size. The legislature's objective is to encourage companies to adopt a preventive approach in management, which favors quick action when the first signs of decline or crisis occur. Underlying the adoption of the alert system governed by the crisis code, a number of indicators must be set up capable of predicting a state of crisis and the extent of its severity. Situations of potential decline or true crisis should thus be intercepted and confirmed by indexes and indicators that represent a wealth of information available to company management and corporate bodies. In order for all this to take place effectively, financial indicators need to be accompanied by other non-financial indicators. Likewise, to verify the adequacy of a company's organizational, administrative, and accounting model, which is in turn (also) necessary for the production of information to calculate the crisis indexes, it is appropriate to use indicators that are not only financial in nature. The proposal for a European Directive 2021/0104 of April 21, 2021 provides for a significant increase in the number of entities required to draft the non-financial statement (NFS), including listed companies with fewer than 500 employees, i.e. SMEs whose securities are traded on the market and large companies even if not listed. It does not introduce mandatory drafting of the NFS for SMEs but provides that they may opt for voluntary drafting of a structured non-financial disclosure to be included in the management report, rather than in a separate document, according to specific standards and in compliance with the principle of proportionality.

The aim of this paper is to reflect on the role of non-financial information in early warning. The authors formulate the hypothesis that, since this specific category of information is forward-looking and focuses the company's management's attention on the business outlook, it can certainly prove to also be valuable for the opposite, complementary purpose of intercepting and identifying critical situations in the future.

2. Disclosing non-financial information: a review of the literature

The idea that financial indicators were not enough to measure business performance began to take hold in the early 1980s. In this sense, Itami [1] introduced the concept of creation and consumption of invisible resources, defined as resources based on information. According to Itami, the strategy requires effective harmony between five areas: customers, competitors, technology, resources, and corporate organization; for each of these, "invisible" resources play an essential role. To be successful, good strategies require a great number of such invisible resources to be mobilized, whose creation must have been carefully planned for some time [2].

Attention to intangibles later led to the development of a parallel reporting structure [2–4]. Over time, all models proposed a number of indicators aimed at monitoring management aspects related to knowledge, sometimes constituting inputs of learning processes, other times constituting more or less direct outputs [5–7]. The originality of these models does not consist in the search for new indicators, as in the case of Skandia, but in the attempt to systematize them, in search of a criterion whereby to organize indicators in order to shed light on the various areas of knowledge management and represent their link with value creation [8–10]. From this standpoint, three macro-areas around which to develop measurement parameters were emphasized. The first refers to customer relations in terms of relationships, image, and knowledge of tastes and preferences (defined as "external structure" by Sveiby, or "customer capital" by Edvinsson-Malone). The second is the area of expertise held by corporate staff, mainly consisting of implied knowledge (defined as "competence of personnel" by Sveiby, and "human capital" by Edvinsson-Malone). The third is the area of the wealth of knowledge that has sedimented within the organization in general, mainly, although not exclusively, consisting in codified knowledge (defined as "internal structure" by Sveiby and "organizational capital" by Edvinsson-Malone). Within these three macro-areas, the above scholars proposed a number of indicators capable of representing intangible capital as a whole and the knowledge that forms an essential part of it. This category over time has been typically referred to as intellectual capital [3, 4], with widespread use in practice, especially by the more proactive knowledge-intensive companies.

Since the adequacy of a management control system depends on the market in which the company operates, some non-financial performance indicators may be inadequate. In general, the element that seems to affect the choice of non-financial performance indicators to a greater extent is strategy, which in turn depends on the competitive environment. Other frequently monitored non-financial performance indicators are market share, productivity and innovation rates, and the education level of management.

In the early 1990s, R. Kaplan and D. Norton [11, 12] found that the balanced scorecard as a management reporting tool, now widespread among companies, which could combine the dimensions of management efficiency and effectiveness, finance, internal production, learning, and innovative knowledge development and customer relations [13].

The affirmation of key performance indicators (KPIs) in management control systems also involved gradual dissemination thereof in financial communications to investors. In the mid-1990s, papers began to appear proposing the inclusion of performance measurements in financial reporting, while at the same time analysts were using them increasingly. In 1991, the American Institute of Certified Public Accountants—AICPA [14] set up a commission with the aim of formulating proposals to supplement the financial statements, considered by many to be no longer sufficient to satisfy the increased demand for information by those interested in the company's events in various capacities, by requiring: (i) more information about the company's plans, opportunities, risks and uncertainties, (ii) greater emphasis on factors that create long-term value, including non-financial data that detect how key business processes are performing, (iii) improved alignment between the reports disclosed externally with the information made available internally to top management for the purpose of managing the business [15].

The committee's work, known as the Jenkins committee, started from an in-depth survey of users of accounting and financial information and companies providing such information and led to the publication of a report in 1994: *Improving Business Reporting—A Customer Focus* [16, 17]. It required the inclusion in the financial statements of financial and non-financial data and performances arising from analyses conducted by management, as well as information and forward-looking estimates on risks and opportunities, business plans, critical success factors, and a comparison between approved plans and performance achieved (**Table 1**) [18]. For financial statements to be effective, they need to contain a significant amount of information other than purely financial information. The latter is contained only in point I. A—*Financial Statements and Related Disclosures.* In fact, the model requires specifying the number of other details, including:

- High-level operating data and performance indicators that top management uses for the purpose of managing the business;

- Circumstances and reasons underlying any changes recorded in operating and financial data, nature, and effects of the key trends;

- Forward-looking information and estimates, including opportunities and risks associated with key trends, management plans, critical success factors, and a comparison between the corporate performance actually achieved with the top management's plans and previously reported opportunities and risks;

AICPA—1994—model of business report		
I.	Financial and nonfinancial data	a. Financial statements and related disclosures.
		b. High-level operating data and performance measurements that management uses to manage the business.
II.	Management's analysis of financial and nonfinancial data	a. Reasons for changes in the financial, operating, and performance-related data, and the identity and past effect of key trends.
III.	Forward looking information	a. Opportunities and risks, including those resulting from key trends.
		b. Management's plans, including critical success factors.
		c. Comparison of actual business performance to previously disclosed opportunities, risks, and management's plans.
IV.	Information about management and shareholders	a. Directors, management, compensation, major shareholders, and transactions and relationships among related parties.
V.	Background about the company	a. Broad objectives and strategies.
		b. Scope and description of business and properties.
		c. Impact of industry structure on the company.

Table 1.
Structure of the business report proposed by the AICPA.

- Information regarding the remuneration of directors, management, and major shareholders and relationships among related parties.

The positive effect of NFPI was not limited to reducing management-ownership asymmetries. The measurement of performance using qualitative tools also brought benefits from a purely operating standpoint. In general, it can be argued that monitoring company performance by taking into account qualitative elements has made it possible to intercept signals coming from the market (customer relations, changes in the competitive environment, etc.) in advance with respect to what would be possible by adopting exclusively financial indicators. This has allowed management to promptly take corrective actions in order to prevent difficult situations that could, if left unmanaged, lead to a crisis and even to insolvency.

Therefore, the processing and representation of non-financial information before the adoption of the crisis code played a "subsidiary" role with respect to corporate reporting, which had until then almost exclusively regarded financial data [19–36].

Article 2086, paragraph 2, of the Italian Civil (IC) Code, which was introduced under the crisis code, and the provisions governing warning systems contained therein, allow individual companies to attribute relevance to specific factors, which, taking into account the company's peculiarities, are more suitable "to grasping a possible state of crisis" [37]. Non-financial, qualitative indexes are certainly included among these.

3. Proposal for a European directive 2021/0104 of April 21, 2021

In December 2019, the Council emphasized the importance of reliable, comparable, and relevant information on sustainability risks, opportunities, and impacts [38], and called on the committee to consider European non-financial reporting standard [39].

In the May 2018 resolution on sustainable finance, the European Parliament called for further development of reporting requirements within the framework of the Non-Financial Reporting Directive (NFRD) [40]. In its December 2020 resolution on sustainable corporate governance, it welcomed the commission's commitment to review NFRD, called for the scope of NFRD to be extended to other categories of companies, and welcomed the commission's commitment to the development of EU non-financial reporting standards [41]. The European Parliament also believes that non-financial information released by companies under the NFRD should be subject to mandatory audits. The main users of the sustainability information disclosed in the company's annual report are investors, non-governmental organizations (NGOs), social partners, and other stakeholders. Investors, including asset management companies, want to better understand the risks and opportunities of sustainability issues of their investments, as well as the impact of these investments on humans and the environment. NGOs, social partners, and other stakeholders hope to give more consideration to the impact of their activities on humans and the environment by committing to [38].

The current legal framework does not ensure that the information needs of these users are met. This is because some companies whose users wish to obtain sustainability information do not report such information, while many companies that report sustainability information do not report all information related to users. When reporting information, companies are often neither reliable nor comparable. It is often difficult for users to find this information, and it is rarely provided in a machine-readable digital format. Information about intangible assets, including intangible assets generated internally, is undervalued, even though these intangible assets represent the bulk of private sector investment in advanced economies (such as human capital, brands and intellectual property rights, and intangible assets related to R&D) [38].

In recent years, users' information needs have increased significantly, and they will almost certainly continue to increase. There are several reasons. One is that investors are increasingly aware that sustainability issues may put the company's financial performance at risk. The other is a growing market that explicitly seeks investment products that meet certain sustainability standards or achieve certain sustainability goals. Finally, the COVID-19 pandemic may further accelerate the growth of companies' demand for sustainability information, for example regarding worker vulnerability and supply chain resilience [38].

For companies that must report, the current situation is also problematic. Current requirements lack accuracy, and there are a large number of proprietary standards and frameworks, making it difficult for companies to know exactly what information they should report. They often encounter difficulties in obtaining the information they need from suppliers, customers, and investee companies. In addition to the information reported in order to comply with current legal requirements, many companies also receive requirements from stakeholders for sustainability information. All these will incur unnecessary business costs. Therefore, the declared goal of the directive proposal is to improve the sustainability report at the lowest possible cost, so as to make better use of the potential of the European single market and promote the transition to a fully sustainable and inclusive economic and financial system in accordance with the European Green Agreement and the United Nations sustainable development goals [38].

There are many important international initiatives already in place. Their goal is to help achieve global integration and unification of sustainability reporting standards. The IFRS Foundation's proposal to create a new sustainability standards committee is particularly important in this regard. Work has been carried out by established initiatives including the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB) the same is true of the International Integrated Reporting Committee (IIRC), the Climate Disclosure Standards Board (CDSB), and CDP (formerly known as the Carbon Disclosure Project). The proposal consists of a directive that will modify four existing legislations. First, it will revise the accounting directives, revise some existing clauses and add some new clauses on sustainability reporting. In addition, it will revise audit directives and audit regulations to cover audits of sustainability information. Finally, it will amend the transparency directive, extend the scope of sustainability reporting requirements to companies whose securities are listed on the regulated market, and clarify the regulatory system of these companies on sustainability reporting [38].

At the domestic level, the document "*Il Reporting Integrato delle PMI: Linee guida operative e casi di studio*" (Integrated Reporting of SMEs: Operational Guidelines and Case Studies) is particularly relevant. It was the result of the activity of Network Italiano Business Reporting (NIBR, Italian Business Reporting Network), which—as Organismo Italiano Business Reporting (OIBR) today represented the WICI global network Italian jurisdiction from 2012 to 2018. The English version of the document was published in 2018 in collaboration with IIRC and the WICI Network, and its preparation was resumed and concluded by OIBR in Italian in October 2019.

The guidelines show that integrated reporting not only represents an evolved form of reporting capable of enhancing an organization's relationships with its stakeholders, but also constitutes a tool that can provide business owners and managers with a full and complete view of the company's business activities and can satisfy the information expectations of financial institutions and banks, who are not only interested in year-end but above all in forward-looking and strategic information. In this view, the time devoted to the preparation of the integrated report should not be considered a cost for the company, but an investment that produces returns in terms of organizational efficiency, optimization of resources and capital, development of strategies, sharing of objectives, and measurement of performance.

The above document preliminarily emphasizes a terminological distinction, defining "Business Report" as a document designed to represent, measure, and illustrate an organization's operating and strategic activities and related impacts on economic, financial, and social performance. A fundamental feature of the business report is to combine narrative description with quantitative metrics and indicators, not directly derived from the organization's accounting system. These indicators take the form of key performance indicators (KPIs), expressed with non-financial metrics, and therefore not through monetary units of measurement but, for example, through percentages, physical measurements, Likert scales, and so on.

The "Integrated Report" represents a particular form of business report, i.e. a concise disclosure that aims to illustrate and show stakeholders how an organization's strategy, governance, performance, and business outlook will allow it to create value in the short, medium, and long term in the context in which it operates. Such a report supplements and completes traditional financial statements.

The integrated report focuses on the concept of materiality of the information reported [42]. Therefore, each organization must identify the indicators that best express their specific corporate objectives, providing the reader with relevant, complete, illuminating, and comparable information. In this regard, the guidelines present some general KPIs, sector-specific KPIs, and company-specific KPIs, but for illustrative purposes only. Moreover, the integrated report should be able to represent the specific risks and opportunities that affect the organization's ability to create value and to explain how such elements are managed. For this purpose, it is advisable for companies to identify key risk indicators (KRIs), useful for representing risk factors related to their core business. The guidelines also present some specific company KRIs, again by way of example.

Also within the national context, a growing interest in reporting that is not limited to financial information but also extends to "non-financial" information may be noted on the part of institutions that traditionally deal with financial and accounting issues. In this regard, for example, the conference organized by Organismo Italiano di Contabilità (OIC, Italian Accounting Board) in December 2020 concerning the consultation paper on sustainability reporting published by the IFRS Foundation, was particularly significant. In it, the need to develop a non-financial information system that can support widely proposed sustainability policies was once again emphasized.

4. The impact on SMEs

The 2021/0104 Directive Proposal uses a corresponding method to determine which companies will be subject to mandatory reporting requirements. Except for SMEs listed on the EU regulatory market, no new requirements have been imposed on SMEs. The proposal exempts listed micro-companies from mandatory reporting obligations [43]. The committee will adopt standards for large companies and separate and proportionate standards for SMEs. SME standards will be adjusted according to the capabilities and resources of such companies. Although SMEs listed on a regulated market will be required to use these ratios, non-listed SMEs (the vast majority of SMEs) can choose to use these standards on a voluntary basis [38].

To ensure investor protection, all companies listed on a regulated market should, in principle, comply with the same disclosure rules. Therefore, SMEs listed on the EU regulatory market must meet the proposed new sustainability reporting requirements [44]. However, the requirements for SMEs listed on the EU regulatory market will only apply 3 years after they are applied to other companies to take into account the relative economic difficulties faced by small companies due to the COVID-19 pandemic. When sustainability information reporting and assurance practices reach a higher degree of maturity, this stage will also allow listed small and medium-sized enterprises to apply new requirements. The proposal does not require other SMEs to report sustainability information. However, non-listed SMEs may decide to use on a voluntary basis the sustainability reporting standards that the commission will adopt as delegated acts for reporting by listed SMEs. These are designed to enable any SME to report information in a cost-effective manner in response to a large number of requests for information they receive from other companies with which they do business (such as banks, insurance companies, and large corporate customers), and to help determine limits companies can reasonably expect information provided by SMEs in their value chain. Such standards should also help SMEs attract additional investment and funding, and fully participate in and promote the transition to a sustainable economy outlined in the European Green Agreement [38].

5. The Italian path: integrated reporting for SMEs

The document *Linee Guida per il Report Integrato delle PMI* (Integrated Reporting Guidelines for SMEs) was published by NIBR (Italian Network of Business Reporting) in 2018, aiming to give the IIRC Framework a specific connotation for small and medium-sized enterprises, providing them with a methodological orientation tool that could support them in the adoption of the

Integrated Report. The basic idea is that, for SMEs, Integrated Reporting could be the appropriate instrument to deal with all, public and private, organizations that in any way affect the value creation process, providing disclosures on the company's past and future [45]. An Integrated Report must first of all provide a general overview of the organization's activities and the context in which it operates. In particular, there must be information regarding the inside of the organization, such as its mission and vision, strategies and objectives, and information regarding the external environment, such as the socio-economic context of reference, or the characteristics of the market in which the organization competes. SMEs, which are often characterized by family ties, should represent this information in the report appropriately in order to clarify the typical peculiarities of their company for the users' benefit.

The NIBR, in its paper entitled Integrated Reporting for SMEs: Implementation Guidance (2018), provides instructions on some KPIs to be used as risk and performance indicators. In particular, KPIs are divided into general indicators, sector-specific indicators, and company-specific indicators. The latter can be used by the company to best represent its expertise and peculiarities in the value creation process. In particular, these indicators should be correlated with the organization's strategic objectives, should effectively represent the value creation process, and should be reliable and comparable. Although there is no specific limit on the choice of KPIs to be included in the report, an SME should, in line with the principles set out above, select only those that are appropriate to representing its value creation process. Therefore, indicators should be chosen so as to be useful for summarizing and effectively representing the organization's current situation and future prospects, avoiding the redundancy of information that could hinder its completeness and clarity, rather than favor it. In particular, general KPIs could be entered in the initial part of the Integrated Report, in the section in which a general overview of the organization is provided, and sector-specific indicators could be set out in the section on performance thereunder. An organization is expected to provide KPIs that cover all operating processes and activities and are able to adequately describe the uniqueness and peculiarity of its value creation process. When using sector-specific KPIs, or even KPI's specifically concerning the organization, it will be necessary to add a section at the end of the report containing keywords and an explanation of the various indicators used, in order to make them understandable and practical for all users.

6. Draft of the OIBR 2021 report: "NFI for adequate corporate governance models and for early warnings system"

It has been frequently mentioned in previous paragraphs that non-financial indicators play a crucial role, in that, breaking away from an accounting approach, they are oriented to the future and, therefore, have a high forecasting value. However, it has also been mentioned that it is not easy to identify non-financial indicators that may be adequate to represent the company's future prospects. To do this, it is necessary to have accurate and full knowledge of the business and management events, being able to identify which are the critical success factors that should be taken into consideration. To this end, companies should implement an efficient management control system, which almost seems to become implicitly enforced [46] in order to fulfill the requirement to adopt an adequate organizational, administrative, and accounting model (pursuant to Article 375 of the Italian Code of Corporate Crisis and Insolvency), but also in order to identify the correct non-financial KPIs to be used for identifying potential situations of crisis [47]. For their construction, this type of indicator requires a careful assessment of the risks to which a company is exposed. A risk management system facilitating risk detection, measurement, acceptance, and response and favoring the choice of risk to be avoided with respect to risks that can be mitigated or transferred to others, is essential for the construction of non-financial indicators useful for controlling the status thereof on a forward-looking basis.

In this regard, in Italy, the Working Group on "NFI for Adequate Corporate Governance Models and for Early Warnings System", set up in 2020 within Organismo Italiano Business Reporting (OIBR, Italian Business Reporting Body) is preparing a document with which it aims to identify a basket of indicators for crisis prevention also applicable to SMEs [48].

The work carried out resulted in a paper, currently still in the form of a draft, which analyses:

- Description of the state of the art stating, which are the main sources that represent references for non-financial information in the institutional, professional, and academic spheres. Generally accepted international and national principles and papers issued by professional associations were mapped for such purposes. Some essential theoretical contributions were also recalled, providing an understanding of their development also in historical terms. This mapping makes it possible to highlight how, on the one hand, the need to provide information on governance, i.e. on a company's corporate organizational model and arrangement and the effectiveness thereof for the purpose of monitoring assumed and potential risks, has so far been emphasized by many, while on the other hand, there has not yet been any specific attention to the issue of identifying the likelihood of a future crisis using non-financial indicators;

- Development of a benchmark method to describe organizational, administrative, and accounting models by using NFI supplementing the financial statements of SMEs;

- Identification of KPIs for forecasting crises by proposing a set of possible non-financial data, which, alongside the financial indicators already identified by CNDCEC, may be useful for forecasting situations of crisis. Reference principles and documents are usually set and drafted on a going concern basis and therefore propose the interpretation of non-financial information, structurally closer to the company processes and stakeholders and therefore structurally forward-looking, to assess the company's business outlook. The paper proposes an interpretation of these indicators in an opposite way, emphasizing not the demonstrative value of attractive and positive elements, but they are preventive potential useful for effective detection of risks and consequently for the planning of pre-emptive actions.

6.1 Reporting on "adequate models"

The draft paper of the OIBR Working Group emphasizes the need not only to implement a new model but also to report the arrangement thereof to stakeholders in the financial statements, as good governance and a well-established accounting and administrative model are necessary bases, albeit insufficient, for proper business management.

6.1.1 Corporate governance model

Virtuous and transparent governance rules favor the implementation of effective risk management systems, compliance procedures with respect to the rules governing the various sectors, management controls for the timely disclosure to governance bodies of information on management trends, and, consequently, of any corrective actions to be taken. Smaller enterprises have historically been characterized by a greater blend between the company's and the family's purposes and by a habit of making decisions and planning actions, even extraordinary transactions, without having at their disposal adequate and robust, final and forward-looking, reporting tools; the lack of attention to corporate governance tools, often considered burdensome constraints rather than necessary safeguards for maintaining a company's going concern assumption, has been associated with a reduced presence of professional subjects in charge of control and supervision and with the resulting limited corporate engagement between control and management departments.

6.1.2 Administrative and accounting model

Reporting on the administrative model makes it possible to highlight the company's ability to collect information and build dashboards that are essential for a type of management style based on knowledge and rationalization of company events.

It will therefore be necessary to provide information on the planning and control (or management control) process. Strategic planning can be defined as a process by which the company's strategic objectives and methods aimed at achieving such objectives, are decided and resources (investments) allocated. Strategic planning is followed by operational planning and budgeting. Both strategic planning and operational planning, and the related budgeting phase, presuppose a phase in which qualitative and economic information is gathered. The objectives to be pursued and actions to be undertaken will be decided in advance on the basis of such information. The strategic planning process, however, differs from the budgeting process in terms of time horizon and for the "language" used (qualitative and descriptive with few succinct values in strategic planning, quantitative and monetary in budgeting), in terms of relations with organizational departments and in terms of business responsibilities since, normally, only the budget is arranged according to centers having economic responsibilities and therefore according to the existing organizational model.

With regard to the accounting model, it will be necessary to provide information on the presence and arrangement of the general accounting system and analytical accounting system. The general accounting system consists of a set of tools and procedures necessary to correctly detect business management events and systematically report the values originating from business operations in chronological order. It must be adequate to the company's size and characteristics, as required by the rule contained in the second paragraph of Article 2086 of the Italian Civil Code. Regardless of the company's size and characteristics, a general accounting system cannot be considered to be adequate unless it is supported by a record-keeping system capable of representing management events both in financial and in economic and equity terms. An adequate record-keeping system, implemented within a broad management planning and control system, is decisive for the timely detection of signals of crisis. Analytical accounting is considered important corporate information and decision-making tool, as: it enables the evaluation of each individual corporate area; examines the results achieved with respect to the targets, defining their composition, analyzing the process that has caused that result; it enables the formulation of strategic choices with reference both to individual company divisions and to management as a whole. It is therefore both an information tool and a useful tool for the interpretation of business phenomena.

6.2 NFI for forecasting crises

The draft paper of the OIBR working group identifies KPIs for forecasting crises by proposing a set of possible non-financial data and structuring them according to the possible external and internal stakeholders.

6.2.1 External relations

The components considered relevant to describe how a company has set up its external relations, and therefore if there are any critical issues in such respect, are as follows:

- Corporate environment: Every event has repercussions on a company: knowing the factors for this, even those over which the Company has no control, is, therefore, crucial to understanding such repercussions. The identification of issues that have the following two characteristics constitutes the basis of the analysis: the issue is beyond the control of the company and it will have a certain level of impact on it. Once all "issues" have been identified, it will be necessary to identify the implications and likelihood that the related event will occur. The corporate environment, considered in the context of external relations, refers to the (external) environment in which the company is situated and relationships established with it. Obviously, the extent of this environment derives from the policies and strategies pursued by the company, from its size and internationalization choices. It follows that the environment is a very important dimension for the prediction of corporate crises, even though most of the variables that characterize it are not directly controllable by the company, especially if it is small or medium-sized;

- Corporate reputation: Preparing a dashboard of non-financial KPIs relating to the topic of corporate reputation is a particularly important element for the forecasting of corporate crises. Corporate reputation rests on three key pillars [49]: product quality, ability to engage, and degree of authenticity. To reduce reputational risk, one of the first things to do is obviously to minimize the causes that may trigger a reputational crisis as far as possible [50]. One of these causes often lies in improper, reckless, inconsistent, and non-genuine corporate communication [51] and marketing activities, whose basic functions consist in conveying "promises" outside the company about the quality level of its products, initiatives for the benefit of the community and informing the public of the actual results achieved by the organization;

- Financial institutions: Relations with financial institutions are significant in crisis situations and in the preceding phases typically characterized by financial stress, the presence of outstanding debt, and widespread payment delays. The debt structure of small and medium-sized enterprises often suffers from an imbalance towards the debt with respect to equity; debt is frequently owed to banks and financial institutions and is often short-term. It, therefore, becomes central to develop KPIs that may provide adequate information on the structure and evolution of transactions with lenders over time, their nature, the number of active lenders, the technical financing methods and repayment terms and guarantees in place;

- Customers: Providing non-financial KPIs on the size of a customer is certainly an important element in forecasting corporate crises. The first step towards the definition of KPIs in regard to customers consists in the translation of the corporate strategy into targets that may stand as market benchmarks, i.e. a demand segmentation process aiming to identify customer groups with similar needs served by the company. Setting up a dashboard of indicators could make it possible to understand: (i) on a forward-looking basis, whether the company's distinctive expertise is capable of retaining existing customers by consolidating its corporate positioning and ability to acquire new customers; (ii) in a final evaluation, what is the current composition and solidity of parties already supplied, noting the degree of concentration and longevity of open positions, thus assessing the risks, including financial risks, connected to the activities being carried out;

- Suppliers: The bargaining power of suppliers and thus their ability to impose their terms of sale is influenced by a number of factors, including the number of major suppliers, availability of substitute materials, contribution to the qualitative characteristics of the company's products, costs for exiting the relationship and risk of downstream integration. The analysis of these factors makes it possible to obtain relevant information that influences the company's strategic decisions and has an impact on its competitive positioning. From a more global perspective, it is appropriate to appreciate the activities carried out by the company in relation to the entire supply chain, including the management of materials and information systems used for all parties involved in the creation of products or services, order fulfillment, and tracking of significant information relating to supplies. Setting up a dashboard of indicators could make it possible to understand: (i) on a forward-looking basis, whether the company's transactions with suppliers are sufficiently stable and whether there is a conscious mapping and management of the supply chain and therefore of the flow of goods, data, and cash; (ii) in a final evaluation, what is the current composition and solidity of the suppliers, identifying any concentrations of orders and assessing any risks that may derive therefrom.

6.2.2 Internal relations

The components of internal relations may be identified as follows:

- Product: Products and services represent the means by which every company may fulfill its mission and achieve economic, social, and environmental sustainability over time. One of the most important aspects in the value creation process consists precisely in the way a company's supply intersects with its strategy and with the ways in which it intends to achieve its objectives. Understanding whether the products and services supplied to the market are in line with the expectations and benefits requested by consumers is, therefore, one of the key aspects to support the growth of companies over time and ensure a constant alignment between strategic thinking, objectives, and customer satisfaction;

- Organizational model: It may be described in terms of human resources and in terms of operational systems. With reference to human resources, the implementation of personnel training or worker safety initiatives is effective methods to consolidate the satisfaction and retention of the workforce and, consequently, to ensure the future value and going concern basis of the company itself. The organizational model, on the other hand, is a tool through which the organization may achieve its objectives and human resources are an integral part of it [52];

- Production: One of the most significant aspects of the corporate value creation process is the production size of an organization. Key activities for the strategic success of a company in the short, medium, and long term are concentrated within this area;

- Structure of costs: A company's structure of costs is a very significant aspect of its corporate model and this is so especially in situations of crisis, during which it systematically loses control over them and each resource becomes an additional opportunity to achieve balance. It is important to record KPIs relating to the structure of costs that may stand as anticipatory signs of imbalance, consistently with the characteristics of the business and its size.

7. Conclusions

The scenario that the pandemic will bequeath to companies will focus on their ability to create value, putting a strain on the effectiveness of their strategies and solidity of their business model. Although no regulatory requirement has been applied to all businesses (especially SMEs), the pandemic has highlighted the need to introduce new tools that may accompany a more traditional analysis of the financial statements. The expansion of the information basis presupposes the inclusion, when computing ratios, of tailor-made indicators in a company's reporting, set capable of effectively summarizing its going concern assumption, avoiding data duplication and redundancy, which could paradoxically hinder, instead of favoring, completeness and clarity of information. "Traditional" indicators, which mainly represent the company's tangible aspects, should be accompanied by some KPIs that complete the company's reporting process according to its distinctive characteristics and expertise, also completing the representation of components relating to relational, human, intellectual, and structural and risk capital.

The pandemic crisis, therefore, represents a testbed highlighting the importance of management control, of being equipped with a dashboard of financial and non-financial data, and knowing how to communicate them to stakeholders, showing whether the company is sound or otherwise and capable of coping with critical macro-and microeconomic issues that may have arisen as a result of the pandemic.

Communication on an ongoing basis will enable a significant information symmetry and paradoxically will allow companies to exploit "the lessons" learned in a period of generalized and structural difficulty even during the ordinary course of business, thereby becoming more capable of coping with potential critical issues that may arise and more importantly—doing it well in advance so as to avoid "suffering a new crisis" by trying to face and manage them on an ongoing basis, being aware of the fact that critical issues are an inevitable, contingent aspect that must be discussed openly so as to bring out problems, including potential problems, and identify corrective measures in due time based on a continuous improvement approach. This will allow companies, at least in potential terms, to avoid having to prepare weighty turnaround plans to get out of major crises, as the crisis will have by that time been broken down into its individual causal factors and the same may be considered, addressed and coped with more rationally and in a more systemic, but not one-sided and monopolizing, fashion.

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Chapter 11

Creative Living off the Margins of the Niger Delta: Implications for Corporate Governance

Stanislaus E. Nwaigwe

Abstract

The distribution and privatization channels of the wealth from Niger Delta's oil and gas resources are multiple. The main channels excessively favor mainly office holders, international entrepreneurs and their contractors. The rest of the population, or the less favored majority will have to cut their share of the wealth via the alternative channels which may include violent insurgencies. This work focuses on one of these alternative channels, where an Igbo community creatively sustain their access to the oil wealth. An ethnographic study of Egbema, shows that the local population modify their traditional practices to sustain the flow of the oil wealth. This modifying capacity was manifest when they creatively transformed a fishing festival that was traditionally celebrated exclusively, into a public fish bazaar. This was done to keep hold of the money received as compensation for the land expropriated for oil extraction by Shell Petroleum Development Company (SPDC). This has implications for corporate governance, especially with regard to the relationship between companies and other stakeholders.

Keywords: compensation, shell petroleum, igbo town union, corporate-stakeholder relationship

1. Introduction

The oilfields of Nigeria's Niger Delta number up to three hundred, a little less than one percent of the forty thousand oil fields littered across different parts of the globe [1, 2]. Like in playing, 'Bop the peňata'[1], a Mexican game played by birthday attendants, [3] the scramble for rents or wealth in general accruing from these oilfields involves both the highly privileged dominant minority and the less privileged marginalized majority. The dominant minority consolidates and strengthens their advantage by establishing oil wealth distribution channels that are accessible mainly to them. The disgruntled majority aim to either wrestle the dominant

[1] This is a game played by kids attending a birthday. A cardboard donkey filled with candies is hung and kids stand underneath it with plastic sticks. The idea is to bop this cardboard donkey open with the plastic sticks to release the candies, which the kids now scramble to pick up in numbers. In the process of doing so, kids bump into, strike, or shove each other. Reyna and Behrends [3] offer this as a 'useful metaphor for what happens where domination occurs' in the same manner it occurs in developing oil producing states. This, according to them, can be investigated in terms of 'struggles to regulate domination'.

minority for a fair share of the rents or engage the available channels creatively for some share of the rents.

This chapter is about an instance of this creative engagement with a distribution channel of Niger Delta's oil wealth. The channel that is engaged with in this case is the compensation for land expropriated or oil extraction business. A nine-month ethnographic study of Obufia, a town in the Egbema/Ohaji Local Government Area (LGA) of Imo State, revealed that the money paid by Shell Petroleum Development Company (SPDC) as compensation for an expropriated land earned the oil company a social operational license in Obufia. At the same time, it generated a dispute capable of consuming hundreds of lives and properties worth of millions, were it not managed with extra care and prudence.

As it happened, this compensation money was not paid once but as a rent, which came in periodically. As a result, with an eye on a sizable piece of the oil largess, several communities stepped forward to stake their claim on the expropriated land. A dispute ensued and dragged on for years. Moso, one of the communities involved in the dispute opted to transform a traditional fishing festival from an exclusive tri-annual event to an open annual fish bazaar. This was intended for fundraising to finance the protracted and expensive court case. Although SPDC suspended the payment while the court settled the case, Moso community continued to sustain the new version of their festival. The money raised thereof continues to serve the community in court and in other aspects.

Nevertheless, what if Moso community was not creative enough to opt for a modification of an age-long traditional festival in their bid to sustain their access to the compensation? What if there was no traditional event celebrated commonly? What if some of the community members were strongly opposed to the idea of modifying a traditional festival? An alternative option would have been to coercively demand for the compensation money either directly by kidnapping oil company personnel, or indirectly by other means. This alternative option could not have been far-fetched. Insurgent groups springing up to kidnap for ransom, occupy oil infrastructure and wreck havoc across different parts of the Niger Delta are a good reference point for anyone or group who prefers violence. But for some creative ingenuity, Obufia could easily have become one of the violent ridden parts of the Niger Delta.

Having said that, an approach to negotiating compensation which places a greater share of the burden of determining the most preferable form of compensation on the local community would have changed the entire story. At least, it would have reduced the culpability of the corporation for the turn events took after the compensation. Unfortunately, this was not the case. The oil company's management board threw its weight behind any process that was to determine the form any compensation for expropriated land was going to take. Codes of corporate governance emanating from different parts of the world are reviewed from time to time to incorporate the latest developments in the corporate world. Such reviews have seen codes emerging at the turn of the millennium emphasize stronger relationships between companies, shareholders and other stakeholders [4].

It is outside the scope of the discussion to specify details of what the extant regulations for corporate operations in Nigeria recommended at the time SPDC paid its first compensation to the Obufia. It suffices to note that extant company acts recommended compensation for expropriated land. Assuming the company acted in accordance with the existing regulations, are there sufficient grounds to defend the silence or lack of clarity of these regulations on the inclusion of the local communities in the decision of what constitutes adequate compensation? Is such an infraction not a serious deficiency? As grave as such a deficiency might appear, any hope of its obliteration by the constant review of corporate governance codes, is profoundly dimmed by a couple of challenges. There is first, the challenge of settling what constitutes value and right behavior in the relationship between companies and other stakeholders [4]. A second challenge involves the high level of corruption coupled with a profound inability to implement statutory recommendations due to ineffective corporate monitoring outfits associated with developing economies [5].

The rest of the discussion in this chapter will proceed as follows. I will begin by introducing the Niger Delta as a resource rich zone, specifying the different distribution channels by which the wealth generated from the exploitation of the Delta's oil resources is appropriated. Thereafter, I will shift my focus to one of the distribution channels, compensation paid for expropriated land. This is where I will detail the proceedings that gave rise to the transformation of the fishing festival in what I termed creative engagement with oil wealth distribution channel. I will then discuss the implications of this whole episode for corporate governance, where I will lend my voice to echoes of demands for more flexibility in the recommendations of codes of corporate governance. These codes need to condition companies to recognize the difference in values and behaviors expected of key participants in the relationship between corporate entities, individuals and states. This difference calls for more elasticity in terms of values and behavior on each of the participants. In conclusion, this chapter recommends that corporations need not impose changes on communities. The story of how the local community receives the changes imposed, which may include stiff rejection or creative engagement need not be told if only corporate codes are designed to be more accommodating.

2. The Niger delta and the distribution channels of its oil wealth

The Niger Delta area is in the southern part of Nigeria, south of the confluence of the Benue and Niger Rivers, and around the water fingers branching off Nigeria's great waterways [6]. The delta is a vast sedimentary basin constructed over time, by successive thick layers of sediments dating back to 40-50 million years. It is a lush coastal plain of about 70, 000 square kilometers. Its geographical perimeter extends from the Benin River in the west to the Cross River in the east, and from the southernmost tip at Palm Point near Akassa to Aboh in the north[2], where the Niger River bifurcates into its two main tributaries – the Forcados and the Nun Rivers [8–10].

The vegetation zones of the Delta range from tropical rainforest, freshwater swamp forest, and saltwater mangrove forest [9]. The natural resources – crude oil, palm oil, and wood – from the Delta form the bedrock of Nigeria's economy. The natural endowment of the area accounts for about seventy percent of Nigeria's hydrocarbon resources, especially crude oil and natural gas. By 2009 the proven oil reserve of the Delta is estimated at 36.2 billion barrels [11].

Oil extraction in the Delta started in 1956 after the discovery of marketable oil resources in Oloibiri. Between 1969 and 1999, the number of oilfields in the Delta rose from fourteen to as many as a hundred and seventy- six [7]. Forty-four of these are located offshore [7]. By the first decade of the new millennium, there were three hundred oilfields, five thousand two hundred and eighty-four oil wells (twelve of which are in Egbema), and seven thousand kilometers of oil pipelines in the Delta [1][3]. Tons of crude oil have been shipped from these oilfields. The quantity of oil,

[2] Some sources locate the Delta's northern boundary to the Anambra River [7].

[3] Ike Okonta and Oronto Douglas [12] acknowledge only 150 oilfields. If Watt's [1] calculations are correct, it implies that as many as one hundred and fifty oilfields were discovered between the time Okonta and Douglas went to the press in 2003 and the time Watts's article was published in 2008.

which each oil well produces, is buried in the same mystery that surrounds the financial operations of oil companies [12].

The oil extraction in the Niger Delta has since inception yielded an estimated (US)$400 billion or more[4] [12, 14, 15]. The collaboration between the state office holders and business enterprise has led to the steady increase in oilfields and barrels of oil produced each day in the Delta. Most of the biggest Transnational Oil Companies (TNOCs), such as Shell, Chevron, ExxonMobil, Total, and Agip (Eni), are well represented in this collaboration.

The oil rents and revenues from the Niger Delta are centrally collected and distributed to different politically established institutions[5]. However, from these institutions, the oil wealth is siphoned into private hands through different distribution channels. Large scale constructions, issuance of import license, employment in civil service, and the creation of sub-federal political units – states, Local Government Areas (LGAs), autonomous communities – constitute the channel through which the greatest part of the Delta's oil wealth goes into private hands [1, 15]. The actors taking advantage of this main channel are mainly office holders, international construction businesses and their executive contractors [15].

A second distribution channel of the Delta's oil wealth is associated with practices such as the occupation of oil infrastructure, extortion of protection money from the oil companies and their contractors, intervention or manipulation of compensation cases, and the kidnapping of oil employees. Many of those who are excluded from the main channel of distribution find their own share of the oil wealth by engaging in these practices [15]. Grabbing a share of the oil rents and spoils in this way can be as coercive as to involve the use of arms and weapons.

The third distribution channel includes some of the practices listed as part of the 'parallel economy funded by [Nigeria's] oil sector' [17]. The list includes practices such as, the diversion of 'special funds' funded by oil receipts; bribes or 'taxation' paid on oil contracts and the extensive smuggling of refined petroleum across Nigeria's borders, the illegal lifting of crude oil (bunkering), and secret accounts held by the NNPC [17].

The last distribution channel of Delta's oil wealth relates to the tendency to modify traditional practices and reconstitute traditional alliances, with the primary purpose of securing, or gaining access to oil rents and spoils. The Igbo of Obufia bring this tendency to life. As mentioned briefly in the introductory section, it is a story of the effects of oil money paid as a compensation for an expropriated land around a lake named *Kutu*. The *Kutu* lake hosted an exclusive fishing festival once in three years, until the arrival of the SPDC engineers who discovered oil and gas reserves around the lake. The discovery of oil and gas reserves around the lake is accompanied by payment of monetized compensation, which initiated a transformation that has brought the creative instincts of the Igbo to light. I will discuss this in detail in the coming section.

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[4] Some authors rate it at US$600 billion [13].

[5] There are four political institutions for distributing Nigeria's oil wealth [16]. The first is the Federal Account that includes rents appropriated directly by the federal state. The second is the state Derivation principle which vests each of the 36 states with the right to a proportion of the taxes which its inhabitants are assumed to have contributed to the federal treasury. It also vests each state with minimum revenue from natural resources derived from it. Currently, it stands at thirteen percent. The third is the Federation of States' Joint Account. By means of the latter, revenue is allocated to states based on need, population and other criteria that will be decided by the parliament. The fourth institution is the Special Grants Account, which includes funds designated specifically for the Niger Delta such as the Oil Mineral Producing Areas Development Commission (OMPADEC), and the Niger Delta Development Commission (NDDC).

3. SPDC compensation and the transformation of *Kutu* fishing festival

Kutu stands for both the fishing festival and the lake in and around which the latter is celebrated. My first experience of the *Kutu* fishing festival was on the 12th of March 2012. On arrival at the lakeside by midday, there wasn't so much going on. However, the few activities going on were sufficient to give anyone a substantial touch of the festival. During that afternoon at the lake, one could still find people roasting fish and displaying them on makeshift tables for buyers or guests to the festival. Apart from people who were busy roasting fish, there were yet a few others who were still rowing in their boats and taking their scanty hauls ashore. People who wanted to bring home some fresh fish were still hovering around those enduring fishermen, waiting for something good to buy. Nonetheless, all of this proceeded alongside other not so unimportant activities, which included eating, playing or sleeping near the erected makeshift tables or in tents.

While strolling along the lake, I stopped at intervals to speak with some of the people who were busy doing one or two things with their catch. The interviewees recounted some stories about the festival and how they looked forward to it. The fishers complained of a poor fish harvest for that year. They attributed this deficiency to the wrong timing of setting up the fishing nets and other fishing tools in the water. This was exacerbated by a very windy climate throughout the setting-up exercise. Rather than mount the fishing nets after the target fish were retired, they were mounted before they retired, thus allowing the fish enough time to evade the impending danger. As if that was not enough, the tempestuous climate that swept through the mounting of fishing nets and tools session made it difficult to have these nets and tools reach the desired depth in the water. The fishers and the rest of the participants in the festival generally berated the exercise for being not such a profitable venture after all. People who invested in the festival expected to record some turnover and maximize profits. In other words, they expected not only to recover their expenses (the money spent in purchasing the right to participate in the festival alongside other logistics), but also to generate some profits from their sales.

In sum, the *Kụtụ* festival is an event wherein people engage in different collective activities, which also require individual skills. First, the fishing adepts bring their fishing skills and tools to fish in the lake, to harvest and gather assorted species of fish. Secondly, there is an elaborate celebration of a successful catch of fish. This celebration features different activities such as: fanfare – display of communal hauls accompanied by singing and dancing, display of different recipes of fish and the formation of new friendship ties. Thirdly, when there are candidates for initiation into the *Okoroshi*[6] traditional cult, the initiation rituals take place on the eve of the festival.

The *Kutu* festival, which the village of Moso in Obufia used to organize exclusively for themselves, to celebrate with their friends and relatives, has changed over time. It is currently organized as an open event admissible to anyone from anywhere, who is ready to engage in different kinds of exchange and transaction. Some of its traditional features are either omitted or transformed into something totally different. The transformation of the festival owes much to two different factors.

The first factor relates to the compensation and rent paid by the oil company (SPDC), for expropriating the oilfield in and around the *Kutu* lake. The company pays the villagers some money, over a renewable period. It was the need to sustain

[6] *Okoroshi* is a cult of initiation of male community members into adulthood. No specific age is required for this, but one is expected to be old enough to afford the items required for this initiation, just as one is expected to be capable of rational action (this implies being able to distinguish between what is lawful and what is not, in the local parlance).

the flow of this money that warranted the option of launching/sponsoring which constitute the second factor. The two factors overlap each other, I will begin with the second before going into the first factor, which relates to compensation.

3.1 Launching and sponsoring

Launching and sponsoring may be regarded as a practice whereby an innovative performance or product is recognized and appreciated by means of a token. This practice developed during the second half of the twentieth century. It was the Igbo town unions that set the pace for identifying and assigning a launchable or sponsorable quality to goods and services. Following their example, the practice spread rapidly among Nigerians. The criteria by means of which sponsorable and launchable quality can be identified and determined are not written down in any text. Nor is there any formal institution responsible for setting up the criteria at any point. What is required is mainly the creative capacity of the persons involved. Such a capacity may be attained by referring to different scalar registers. However, this practice has roots in certain Igbo traditional practices: *ile eze* and *itu ego.*

Introducing a piece of art by means of a ritualized formal outing – as launching may be rendered in its literal sense – is hardly anything new to Igbo social groups. When people successfully put together fresh artistic initiatives, such as a dance club with peculiar choreographic dance steps and gestures, a masquerade troupe, a wrestling championship, etc., they usually organize a formal public outing to inform the public about it. Participation in such a public outing is usually open to everyone. Nonetheless, hardly any formal outing of such initiatives occurs without having someone named as the sponsor or chief host.

Introducing new things via a formal outing is a practice traceable to '*Ile eze*' and '*Itu ego*' – among the Igbo. The first, '*Ile eze*', is portrayed in the Igbo proverb, *Adighi agba aka afụ nwata eze* (No one may be the first to publicize the fact that a toddler has started forming a milk tooth without having to support such an announcement with a token). This is not a mere proverb. It is also accompanied with a corresponding cultural practice. Rather, it is the cultural practice that gave rise to the proverb. Usually, a chicken is required of the person who announces the first tooth set of a toddler across most Igbo groups. In a sense, every new piece of art is like the fresh milk tooth of an infant child.

'*Itu ego*', on the other hand, is the practice of spraying money on someone making a public display, in appreciation of that special contribution. Someone dancing or entertaining with extraordinary skills often draws appreciation beyond applause. It is not unusual to find a performer on stage spotting a target among the spectators and mixing up his/her display with inviting gestures to lure the target into spraying money on them. Most targets end up spraying money on these performers. This cultural practice has continued even among Igbo people resident in other parts of the world. Spraying money on people on social occasions has remained a hallmark of Igbo gatherings. There are people who make material gains from this cultural practice. These people come with lower denominations of currencies to social gatherings, which they exchange for higher ones at unequal rates. The difference is kept as gain.

Following this practice, however, it is quite common to find someone approaching another person, brandishing a magazine he edited, or a sculpture he made, with a request: "*Enyi, lọnchiaranụ m ihe* a" (Dearie, I hope you do not mind launching this for me). The person approached in this manner can be anybody, though in most cases they are persons who are perceived as capable of making donations or willing to make financial sacrifices. Most people would prefer to approach someone very well known to them, for launching a magazine edited or a sculpture produced or co-produced. They expect such a person to offer a little more than what might be the actual cost of that thing, supposing it were to be sold in the market. It does not imply that one should not approach a passer-by with a personal product, making a request for launching. In fact, in recent times, it is becoming quite common, especially during social events, to find someone being called upon to give a token (usually money) in appreciation for a good speech or ritual gesture made by another. Such a gesture can be stylishly ushering a guest into an occasion.

Even Christian and religious gatherings are not left out in the adoption of this technique for different purposes in their favor. I was in a church in Newi, when the choir that had won a trophy by coming second in a singing competition, was being received. The anchor of the reception asked the choir leader to go up to the altar with the trophy facing the people. Then he started; 'I want someone to appreciate this trophy with the sum of five thousand Naira'. No one came out. Then, he said, 'Someone should appreciate this trophy with the sum of three thousand Naira'. Few people came out. He reduced the amount further, and further, and people responded accordingly. In the end, he presented a basket, and asked the rest of the people to put in it whatever they could afford to appreciate the trophy with.

These days, annual harvest and bazaars in churches are no longer as simple as bringing the harvest of different things to the altar and having them resold to those who need them. During harvest and bazaars in recent times, someone with special persuasive skills is invited to act as the homilist. Such a homilist is expected to use his/her persuasive skills to convince targeted church members to make offerings much higher than intended. A similar consideration is applied to the choice of the auctioneer, who is expected to squeeze people into coming up with bids much higher than the actual price of items sold. Many churches do not have to wait for occasions like harvest and bazaar to activate this technique of fundraising.

The proliferation and penetration of launching/sponsoring into all facets of social life across Igboland, if not across the entire southern Nigeria, could hardly be divorced from the Igbo town unions and their preferred fundraising mechanisms. The proliferation of town unions during the middle of the twentieth century invested launching/sponsoring with some degree of importance that has helped to push it into different aspects of local social life. Although launching and sponsoring are here lumped together, it should be noted that, when applied to the Igbo town union, they are not necessarily interchangeable concepts. They are paired in this text for two reasons. First, they are both the most preferable fundraising mechanisms in the town union. Secondly, in some instances, it is quite difficult to distinguish one from the other.

Town unions always kick-start any fresh initiative, or fresh edition of some repetitive event or ritual, with a ritualized festive outing. This can be referred to as launching. One can distinguish between two main forms of launching – ritualized launching and spontaneous launching.

Launching in its ritualized form, according to Okafor and Honey [18] is a festive occasion to 'launch' a project that may include the sale of published book. In other words, during this festive occasion a private[7] or community initiative makes a formal outing. During such an outing, the private or community initiative is publicly unveiled, while people react by showing their support and appreciation of it. Someone is usually nominated as the chief launcher. This chief launcher makes the first pronunciation and sets the ball rolling for the launching. Other launchers will follow suit, pronouncing amounts usually less than the amount offered by the

[7] Any such private initiative must in some way be beneficial to the community represented by the town union.

chief launcher. The chief launcher is expected to announce a very big amount, to set the standard high for the rest of the launchers.

Many times, even when the other invited launchers are willing to offer more than the amount the chief launcher had announced, they hardly choose to do so publicly or overtly. This caution is necessary for preserving the prestige of the chief launcher, an infringement of which could afterwards be a possible source of friction between them and the chief launcher. Considering such a slight to his prestige as a deliberate public disgrace, the chief launcher might want to take his pound of flesh from the offender. On some other occasions, someone can opt to supplement the amount pronounced by the chief launcher, before making his own pronouncement.

Again, by announcing an amount far below expectation, the chief launcher exposes himself to ridicule among his age mates and contemporaries, who will continue to taunt him, until he has redeemed himself on another launching occasion. This accounts for why on many launching occasions, people pledge an amount far higher than what they would willingly part with, or could afford, only to turn around and either delay or withhold the redemption of their pledge. Many town unions have kept a list of people who have made unredeemed pledges. Chief launchers who are more prudent agree with the launching organizers beforehand, on the exact amount they will willingly offer, which can differ from the amount they will announce publicly.

Launching events are done in the open field, or in town assembly facilities or civic centres, and mostly during festive periods, such as Christmas or Easter. Public address systems are usually mounted in strategic corners of the venue. Sometimes, different popular music groups are invited to perform at intervals, to entertain the participants in the launching, and by so doing, attract more people to the launching venue.

The spontaneous form of launching, on the other hand, provides the occasion (not necessarily festive), whereby a repeatable ritual gesture, such as stylishly ushering in a guest during an occasion, gets a special recognition and emphasis by someone other than the originator. When people invite others to honor such gestures, they could use the term launch, or sponsor to lure them. Sponsoring is more appropriate when the ritual gesture is repeated on a regular basis. For instance, the one who kicks off the New Yam[8] festival of a given year, can be said to have sponsored it. As will be demonstrated below, the transformation of the *Kutu* fishing festival is to be understood from this light.

3.2 Role of launching/sponsoring in the transformation of Kutu festival

Since the introduction of monetary compensation by SPDC, the *Kutu* festival has witnessed a massive transformation. The struggle to gain a substantial portion of this compensation or to position oneself for maximizing access to the compensation, triggered a series of changes in the festival. Before proceeding with the launching/sponsoring effects on the transformation of the festival, a word or two on compensation can be helpful.

Compensation referred to in this case does not cover all of what the Papua New Guineans studied by Marilyn Strathern [19] might ascribe to it. In other words, it ought not to be misconstrued as referring to both the payment made to persons, and the procedures by which people come to negotiate settlement for expropriation of property [19]. Compensation in regard to the lake refers to a kind of substitute for loss of, or damage to, belongings. SPDC or any other oil company makes this

[8] Yam is traditionally the chief crop of the Igbo. Each year, every Igbo community marks the arrival of the new yam in a festive occasion involving the entire community. This is referred to as the New Yam festival.

payment to the community in whose property it drills wells, lays pipelines, constructs gas flaring units, or erects flow-stations in the Niger Delta. The amount paid and the period covered vary with the loss or damage caused. In the case of Moso, the amount and period covered have changed over the years. The most recent payment was about seven million Naira (less than €30, 000).

Generally, compensation is to be understood in relation to the fairness principle. Socio-political analysts speak about the 'fairness principle', which starts from a hypothetical baseline in which no one's activity should be injurious to another [20]. In line with the principle, justification for bearing the costs of another person's activity can be attained only when appropriate compensation is made. In other words, gaining at another's expense, or moving away from the baseline of the 'fairness principle', may be permissible only when appropriate compensation is made. This principle has generated much controversy among scholars. Some say that adequate compensation has to follow any infringement of the 'fairness principle' [20, 21]. Others say that there could be nothing like adequate compensation, considering especially that some goods are non-commodifiable and difficult to be assigned with objective market value [22].

Corporate activities in the Niger Delta include compensating host communities. This aspect of corporate activities in the Niger Delta has a long history. It goes as far back as the early days of resource extraction, ever since an Igbo group in the present Imo state resisted what they regarded as an encroachment into their private property by foreigners [23]. Thenceforth, negotiations of the sort in question often precedes any corporate initiative in most parts of the Niger Delta. This compensation has been packaged and delivered to host communities in different forms. Currently, it is considered as part of the corporate social responsibility (CSR), and delivered through 'corporate-community relations' [24]. This is justified on the grounds of either facilitating the 'social license to operate' [25, 26] or compensating for any contribution to environmental degradation [27, 28]. It may also be justified on the ground of business promotional measures, as well as on philanthropic grounds [29].

However, since 1958, 2 years after marketable oil was discovered in Oloibiri, when SPDC commenced its oil exploration and production operations in the Egbema area, especially around the *Kutu* lake, [30] the company has opted to compensate the host communities for damages and losses resulting from its activities. To do so, it must first, settle the issues relating to the ownership of the expropriated or damaged property.

The ownership of the lake was initially traced to Moso village of Obufia. Another village named Mogbeoru in Bacheki, a neighboring autonomous community to Bodioma, was also associated with the ownership of some portion of land near the lake, where oil operations also extended to. To strengthen its license to operate in the area, SPDC settled for paying periodic monetary compensation to the villages linked with the ownership of the properties in question. Thus, both Moso village of Obufia and Mogbeoru village of Bacheki started receiving compensation from SPDC on a regular basis. This compensation often came as bank checks, not cash.

As the story goes, as soon as SPDC began to pay regular compensation to Moso and Mogbeoru villages, some other villages – Molako in Bacheki and Mogbafo in Obufia – stepped forward to claim that they co-owned some portion of the land for which compensation was being paid by SPDC. This oil rich piece of property thus became the source of protracted disputes between these villages[9]. This dispute was brought to the civil court, but the final judgment was not forthcoming.

[9] Disputes triggered by compensations paid by oil multinationals are widespread in the Niger Delta and some oil companies such as Shell have become aware of how the compensation they pay to the host communities have fed into intra-community and inter-community conflicts [27, 31, 32].

The Molako village of Bacheki had its cause in the dispute spearheaded by one of their own, who was a renowned staff member of SPDC. The fact that this man was affluent and quite influential in SPDC complicated the matter for Moso and Mogbeoru villages[10]. Even up until now, the matter has remained unsettled in court. SPDC, in turn, suspended the payment of the compensation to the villages until such a time as the matter will be resolved satisfactorily and amicably. Jay Ogaranya – an informant on the transformation of the festival in Obufia – mentioned that the matter was settled in 2013, leading to SPDC paying Moso and Mogbeoru the arrears of the compensation. It appears that the case has returned to court once again, from what Orams said to me later.

A different version discloses that when SPDC decided to compensate the communities whose piece of property it expropriated, two villages – Mogbeoru in Bacheki and Moso in Obufia – which identified themselves as the rightful owners of the property in question, co-opted one other village each – Molako in Bacheki and Mogbafo in Obufia – to spread out the 'windfall' from Shell to as many beneficiaries as possible. Such a move was expected to add further value and strength to their fraternal bond. It was the younger generation of the very villages identified as the rightful owners of the property, who decided to withhold the portion of the largesse meant for the co-opted villages. This happened at the point when the beneficiaries perceived a significant drop in the value of the money paid out by SPDC. This did not go down well with the losing party, especially the younger generation of the co-opted Molakpo and Mogbafo. The disgruntled parties were then forced to come up with a different narrative. They started to claim that their ancestors owned a portion of the disputed property as well. They would go on to take the matter a step further, by bringing it to court to seek redress.

Nonetheless, despite their differences, both versions of the story admit of disputes regarding the lake being brought to civil court for settlement. In most cases, land disputes in Nigeria require several court hearings. Thus, to meet the financial demands of the protracted judicial processes, the Moso village in Obufia settled for a sponsorable version of the *Kutu* festival. The lake that hosts the festival, they reasoned, should generate the money that will be used to hold festivals in its honor. The money raised from sponsoring each new edition of the festival could go a long way in aiding them finance the court proceedings. Such a reasoning was quite spot on and important for their cause. How did it all happen?

Fishing and distributing fish at any edition of the festival were previously the prerogative of every Moso village member, and any other person granted participatory rights by the members of Moso village. That should change. People can be fishing and doing anything with fish on other lakes or water basins, but to do so on *Kutu* lake is different. It is unique, and a kind of innovation that is launchable. Only those who can recognize and appreciate the innovative quality of fishing or distributing fish at the seasonal festival are to be allowed to carry on with the latter. Anyone who wants to fish or distribute fish during the festival is expected to part with some money. This money paid is exclusively for launching the innovative act of fishing or distributing fish during the festival. It is not necessarily a payment for the fish that will be caught from the lake, even though it is presumed.

Furthermore, to avoid a situation, where low turn-out of participants might lead to poor financial results, thereby stalling the court proceedings, it was better to find a sponsor who would cover the turnover expected from each edition of the festival in bulk. This sponsor can then recoup his money from payments made by participants. The sponsor is not unaware of the risks involved – people might decide to

[10] This rich man took advantage of his wealth and connections within Shell to work against the opposition.

boycott the festival. But, she/he is also aware of the significance of money invested in sponsorship to the Moso village members.

Upon the decision to make each new version of the *Kutu* festival 'sponsorable', the Moso village leaders outlined the criteria for assessing possible sponsors. Such criteria included the following. First, sponsors were expected to come from the Moso village. Secondly, sponsoring of the festival was to be taken in turns by Moso village members. Thirdly, the one whose turn it would be to sponsor, could opt to pass the sponsoring rights over to another, who is financially more capable. But such a person to whom the right to sponsor is passed must be either from Moso or from another village within Obufia. Fourth, sponsors may not come from outside the indigenous people of the Obufia autonomous community. In as much as they intended to raise money needed to save their property, they were also careful not to expose themselves to unpredictable external influences.

Given that none of the village members was capable of, or ready for, taking up the challenge of being the first to sponsor the festival, a non-village sponsor was to be found. The next line of action was identifying this prospective non-village sponsor, as well as the manner of notifying this identified sponsor of the decision. The Moso village settled for an oral invitation to the identified candidate, whom Jay Ogaranya identified as the late father of Oma Ochaka, a former contractor in SPDC. They sent out a delegation with a domestic animal and some expensive hot drink. It was easy to convince this target to commit to their cause with these gift items in hand, and with the promise of taking charge of the festival.

4. Implications for corporate governance

During my conversation with Jay Ogaranya I learnt that the essence of keeping the fishing event exclusive was to strengthen the social bond of the village and to redefine their friendship with others whom they chose to invite to the event. It was celebrated every three years to allow the fish in the lake enough time to regenerate. In other words, the exclusivity of the fishing festival was for preservation of tradition, social cohesion and ecological preservation.

Assessing the morality of the transformation of *Kutu* fishing festival from an exclusive village feast to an open fish bazaar is outside the cope of this discussion. The same applies to evaluating the impact of the transformation of the festival on the community that celebrated it exclusively. What remains a significant concern for anyone, whether corporate or not is the security of the environment in which we all live and with which we interact in pursuit of our different ends. Unless this environment is conducive for life and business, meeting our ends will all amount to fantasy.

In the second section of this chapter, I mentioned that part of the distribution channels of the Niger Delta's oil wealth is associated with practices such as; occupation of oil infrastructure, kidnapping of oil employees for ransom, extortion of protection money from the oil companies and their contractors, illegal lifting of crude oil, etc. None of these practices is incompatible with the use of weapons and firearms.

Between the late 1990s and the end of the first decade of the millennium, the oil industry in Nigeria experienced a devastating setback due to the insurgency that is well documented[11]. That the SPDC in Egbema was not seriously affected by this

[11] The details are as follows: insurgency [1, 33–37], youth restiveness [38–40], domestic terrorism [41], armed militia struggles [31, 42–44] kidnapping for ransom [37, 40], vandalization of oil pipelines [44] and occupation of oil installations [1, 37, 40, 45–47], theft and trading of oil [48], oil bunkering, extortion of protection money, as well as violent inter and intra-communal clashes [43]

insurgency[12] was down to the creative ingenuity of communities such as the Moso. The story would have been more like that of the parts of the Delta, where insurgents held sway. Neither insurgency nor the type of creativity seen in Moso is indeed necessary if some adjustments in convictions and attitude are duly made. Corporations need not be immune to such adjustments. Since the turn of the millennium, corporate governance codes have been reviewed to accommodate some of these concerns about relationship between companies, shareholders and stakeholders. Bob Tricker [4] documents some of the significant adjustments in codes of corporate governance across the world.

According to him, the UK Corporate Governance Code that was updated in 2018 calls for companies to create a corporate culture aligned with the company strategy, promoting integrity and valuing diversity by way of emphasizing the relationships between companies, shareholders and other stakeholders [4]. The United Nations Global Compact on sustainability and the environment requires adherence to 10 principles on human rights, labour relations, the environment and corruption from companies that signed up to it. “The Statement of the Purpose of the Corporation, published by the US Business Roundtable in August 2019, replaces shareholder primacy with a commitment to all stakeholders – customers, employees, suppliers, communities and shareholders. The ‘triple bottom line’ (TBL) is an accounting framework that reports on the social, environmental and financial performance of an enterprise.” ([4], p. 28). The extractive industry is not left out in all of this. There is also the Extractive Industry Transparency Initiative (EITI), which charges extractive companies with greater emphasis on accountability and transparency in the governance of resources [49].

In the end, Tricker [4] calls attention to a fundamental deficiency in corporate discourse, which tends to neutralize every effort made to improve the relationship between individuals, corporate entities and states. He observes that even though corporate literature take the place of companies and corporate entities in the society for granted, there is hardly any effort to recognize what is to be expected of the key participants in terms of value and behavior:

> *Corporate governance literature tends to treat the place of companies and other corporate entities in society as a given. The values and behaviors expected of key participants are seldom recognized. Such concerns raise fundamental questions about relationships between individuals, corporate entities and states [4].*

Anthropologists have maintained that in their actions humans aim either to protect their selfish interests, the interests of other persons or groups or the interest of own group or community [50]. This implies that values may vary from persons to persons or from groups to groups. This clash of values can be read from the encounter between SPDC and the Moso community on the *Kutu* lake. It was the local community that made the necessary adjustments in this case. SPDC took its own position for granted or thought that the compensation it paid in fulfillment of the extant codes, covered for every inconvenience. The company did not take time to study the local community thoroughly so as to settle the logistics of ownership of land before negotiating the compensation. This, as observed earlier[13], was to the advantage of the company to pit communities against each another and divert their attention away from the company’s activities. The company also failed to consider the fact that it could hardly compensate enough for changing the symbolic meaning

[12] I was reliably informed in the field that the bulk of oil accessible to the Nigerian state during this period came from Egbema.

[13] See footnote 9 above.

of the land expropriated to Moso community. Traditionally, the lake as an ancestral inheritance partly defined the identity of the community as a symbolic capital of the group. But this meaning is now modified into something like; a resource reservoir, which bears an essential resource that keeps the global economy alive. How about the inconvenience of forcing the community to transform the festival they celebrated exclusively into an open bazaar? How much could be paid for such an inconvenience?

Thus, this observation of Tricker [4] that there is a fundamental problem inhibiting the relationship between corporate entities, individuals and states, is spot on. This hardly helps the case of whatever benefits traceable to the constant review of corporate governance codes across different parts of the world. Unless codes of this kind make more room for flexibility in values and behavior, relationship between companies and other stakeholders will linger. There is an additional challenge to this, especially in developing economies like Nigeria. The corporate governance must overcome challenges such as public office holders' influence on corporate governance, bribery and corruption, multiplicity of codes and weak regulatory mechanisms, and lack of protection for whistle blowers [5].

Public office holders in Nigeria have been accused of using their private companies to launder money stolen from the public sector. This influences the independence of corporate governance. When the defaulting companies are indicted, the penalty announced only ends up as a smoke screen to divert the attention of the public. Again, due to bribery and corruption, private business managers who wish to obtain waivers or some permission from the state are frustrated, unless such managers agree to part with bribes.

Furthermore, there is a multiplicity of codes of corporate governance in Nigeria: the National Pension Commission (PENCOM) code, the Code of Corporate Governance for the Insurance Company, the Code of Corporate Governance for Public Companies, the Code of Corporate Governance for Banks and Discount Houses, Nigerian Communications Commission (NCC) Code of Corporate Governance for Telecommunication Industry, and the Financial Reporting Council of Nigeria (FRCN)'s Nigerian Code of Corporate Governance. Osemeke and Adegbite [51] observe conflicting recommendations among the various codes which contributes to reduced compliance by firms and ineffective enforcement by regulatory agencies. This, they maintain, impedes good corporate governance in Nigeria just as weak enforcement of the codes of corporate governance code have prevented corporate entities like the banks from achieving its objectives. In addition to that, whistle blowers are not protected. For fear of losing their jobs or their lives, people who are in a position to report the malpractices and anomalies in the corporate sector prefer to keep their mouths shut. Despite all of these deficiencies, Nigeria is rated among the first five countries in Africa in corporate governance compliance.

5. Conclusion

At the end of this discussion of the transformations a local community undertook in order to keep hold of money paid as compensation, one can draw a couple of conclusions. First, corporations impose changes on local communities not only by their physical presence in the locality but also in other intangible ways. One of such ways is the transformation of sociocultural practices of the local communities. This is because the recommendations of codes of corporate governance is hardly elaborate enough as to provide for the prevention of such impositions. The failure of the corporate governance discourse in general to recognize what is expected of key participants in the relationship between companies, individuals and states in terms of values and behaviors exacerbates this tendency.

Secondly, in a bid to cope with changes imposed by corporations, communities can regenerate their creative capacity, especially when there are materials and tools that can be fixed together to produce something desirable. While this tendencies of communities are commendable, corporations need not take it for granted that such creative tendencies can be found in all local communities. Where such tendencies are difficult to come by, reactions to impositions can be unpredictable. The onus is on corporate governance codes to dispose companies towards flexibility in value and behavior to accommodate situations where impositions can engender violent rather than creative reactions.

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Chapter 12

Corporate Governance: The Sustainability Quest

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Abstract

In recent times, the concept of corporate governance has become a topical interest to both academia and industry, the focus of attraction has mostly been on the need to understand its potency in advancing a corporation's ultimate interest, and hence the necessity for this study. This study aims to examine corporate governance. The study utilized a narrative literature review methodology to examine the concept of corporate governance, essence of corporate governance, scope of corporate governance, principles of corporate governance, internal corporate governance controls, external corporate governance controls, merit of corporate governance, and stewardship theory perspective to corporate governance. The study finally made postulations on the prospect of corporate governance.

Keywords: corporate governance, stewardship theory, sustainability

1. Introduction

The evolving of the concept of corporate governance started from the Greek term "kyberman" which denotes to guide, steer or govern; from which it transcends to a Latin concept "gubernare," and "governer" from a French perspective. It generally portrays the decision-making processes and execution strategies; nonetheless it connotation could change with regards to the peculiarity of an organization [1].

Cadbury [2] defines corporate governance (CG) as a structure by which organizations are controlled and directed, Obodo [3] posits that CG involves the balance of power with which the organization is directed, managed, supervised and held accountable. CG, to an extent, is a tool through which outside investors secure themselves against expropriations by the insiders and management [4]. Another competing definition is that CG is an interplay of the relationship between company management, shareholders, board, and auditors, etc. [5]; hence, it is ultimately about regimes of accountability [6]. The basis of CG does not end at how organizations are directed and managed but includes how to ensure and promote accountability and responsibility to all stakeholders; therefore, CG will always be in existence as long as the corporate structure is undermined, and the managers and investors experience conflict [7].

Ngozi and Raymond [8] posit that CG is perceived as having significant implications for the growth prospects of an economy, because best CG practice reduces risks for investors, attracts investment capital and improves the performance of organizations [9]. Effective CG is critical to securing corporate accountability, advancing the reliability and validity of financial information, and ensuring the efficiency and integrity of capital markets, with a positive effect on investor confidence [10].

CG in Nigeria is influenced by both internal and external factors comprising of various institutions and individuals charged with the responsibility to ensure effective management, control and accountability of public organizations [11]. The evolution and principles of the CG system in Nigeria were covered by the Companies and Allied Matters Act (CAMA) and improved further in the various Codes of Corporate Governance, the CG situation in Nigeria does not represent a complete lack or absence of structures, legislations and regulations rather, the ineffectiveness of the legislations and structures to effectively ensure compliance and enforcement [3]. CG can be identified through acceptable principles which consist of guidelines for decision-makers to enable them competently manage the economic and human resources in an open, accountable, transparent and lawful manner [12].

In recent times, unpleasant realities in the business world have questioned the credibility of CG. These unpleasant realities, as evidenced by the collapse of the stock market, uncovering of flagrant abuse of regulations practices, and high incidence of corruption in the economy [13]. Oyebode [14] posits that the massive fraud "cooking" of books in organizations not to mention insider dealings and compromised boards in many organizations, as well as spineless shareholders' associations', committees for audit and ineffective Annual General Meetings, imply the collapse of CG, and the necessity for a viable CG. Theses unpleasant realities were addressed via CG decisions (i.e. consolidation, mergers and acquisition, etc.) [15], the efficacy of the CG system in limiting these realities [16], have heightened the interest in understanding CG, and this the study aims to accomplish.

The remaining section of this paper will be divided into the following heading; methodology, concept of CG, essence of CG, scope of CG, principles of CG, internal CG controls, external CG controls, merit of CG, stewardship theory perspective to CG, and conclusion and prospect of CG.

2. Methodology

The narrative literature review methodology was utilized for this study. Its rationale is anchored on the significant scientific role it plays; as it is a critical element of most theses, empirical articles, book chapters, and grant proposals. It engages concepts in a much broader and abstract manner, and is most ideal when aligning diverse author's inputs, either for the objective of interconnection or reinterpretation [17]; it aids in understanding the body of knowledge on a specific concept, which offers valuable integration and overviews [18].

3. Concept of corporate governance

CG reveals the allotment of responsibilities and rights among diverse policy-makers in an organization (i.e. shareholders, managers, board members, etc.) and outlines the values, operation modes, and norms for making and executing decisions on the affairs of the organization [5]. CG also connotes the structure of norms, processes, systems and relationship through which authority is activated and engaged to optimally achieve the goals and objectives while monitoring performance and compliance in the organization [5]. Cochran and Warwick [19] define CG as an encompassing term that addresses particular issues resulting from interactions among management, shareholders, board directors and other corporate stakeholders.

4. Essence of corporate governance

OECD [5] notes that CG functions as a structure that protects the confidence of investors, advance capital market access and acceptance, and enhance the economic development of an organization. By explicitly postulation the operational mode and compliance checks for approved activities, the CG system decreases the operational cost and advance economic interest. The above makes CG essential, advantageous and practical for all forms and sector of an organization (i.e. multinationals, state-owned enterprises, domestic organizations, family-owned firms, and small businesses).

Notwithstanding the disparity in nations operation of CG with regards to the institutional, regulatory and legal environment, they possess a common aim; to define the rights, responsibilities and behaviors that are required of an organization's owners (the 'principals') and managers (the 'agents') for the business to operate successfully. Owners' connotes any person(s) who possess equity (i.e. shares) in the organization. Manager encompasses any person mandated to oversee the affairs of an organization by the owners' or board of directors of the organization.

When breaches in CG happen, they may be systemic, resulting from the negligence of duty or actual sabotage by employees. Nonetheless, the presence of a systemic failure (i.e. a global economic crisis) usually denotes a misalignment in the interest of the owners' and management; and this, an effective CG structure should have addressed before escalation.

5. Scope of corporate governance

OECD [5] posits that CG characteristically addresses procedures to manage, control, and decrease non-financial, operational, and financial risks by structuring the accountability, integrity, and transparency of an organization's management actors (i.e. board members, managers, employees and shareholders) at varying levels within an organization. Key scopes include:

i. Shareholders' rights: securing and facilitating the right and participation of the owner's in organization meetings, including voting on changes to the organization's structure (i.e. articles of incorporation) and major decisions of governance (i.e. membership of the board and members remuneration).

ii. Stakeholders' rights: recognition of the organization's impact on broader interest groups such as employees, customers and communities.

iii. Financial transparency: disclosure of the organization's operating and financial outcomes, the reward system for board members and senior management, and all associated information required to appraise organization and management performance.

iv. Proper accounting: duty to record all business transactions accurately (to avoid fictitious entries and off-the-book accounts), ensure internal sound controls (including the safe custody over assets) and employ proper accounting principles and techniques (i.e. liabilities, valuing organization, and assets). Usually, external accreditation may assist to guarantee the financial information validity being presented; via the activity of an independent party (i.e. with renowned integrity) assessment of the results.

v. Information sharing: obligation to present accurate, timely, and reliable information to the stakeholders, concerning the activities of the organization.

vi. Oversight: the creation of the board and organizational structures (e.g. committees and chairs) that ensure employees are responsible for and evaluate different dimensions of an organization's accountability and operations.

vii. Review: provision of evaluated output and reports on policy execution and effectiveness, the recommendation of changes where necessary.

While various institutional arrangements can be adopted for CG, an organization's board of directors is viewed as the framework's centerpiece; the board envisions leadership on tactical, strategic, and significant operational issues and is deemed as possessing a duty of care for an organization by setting the tone at the top and promoting a CG framework that covers all levels of the organization and risks.

6. Principles of corporate governance

OECD [5]; Ngozi and Raymond [8] posits that for CG to effectively function, the following principles must be present; transparency, accountability, and integrity of CG.

i. Transparency: ensuring that the benefits package of the board members and senior management team are made public; aligned to sustainable performance and decided by a non-executive independent director(s). Transparency International [20] supports government and institutional investors in their call for shareholder approval of the board members and senior management team reward packages (i.e. stock options, long-term incentives, and pensions). Organizations should publicly report on CG structures and anti-corruption systems, including their overall operations and performance.

ii. Accountability: Shareholder and stakeholder rights should include holding boards, owners and senior management accountable for their actions and respect the rights of owners. Minority shareholders rights should be safe and their voice encouraged. Effective participation and enacted rights aids in help in opposing policy and decisions that favor only the interest of the board and senior management teams; hence, discouraging corrupt actions or masked abuses.

iii. Integrity: the same CG standards should be applied across all units of an organization and in all countries where it operates. Good CG standards, rules and ethical principles should not be limited to the parent organization. Equally, organizations should be committed to improving CG standards in any alliance where they possess influence (e.g. consortia, joint ventures, suppliers, and agents). Exact board responsibilities must be apportioned to oversee CG as well as ethical and integrity issues. Transparency International [20] strongly advocates the establishment of independent remuneration and audit committees. Whistle-blowers should be secure, protected and encouraged, to avoid retaliation and victimization.

In supporting these principles of good CG, organizations should be willing to enact the key tools required to reduce risk, corruption, and enhance their zero tolerance for abusive actions. The optimal establishment, execution and restructuring of such a system will guarantee that corruption is neither a tolerable nor legitimate business coat.

7. Internal corporate governance controls

Sreeti [19] posits that internal CG monitors and controls activities; and executes corrective action to achieve organizational goals. This function includes:

i. Monitoring by the board of directors: directors' board, has a legal mandate and authority to recruit, sack, and reward executive management, secure capital invested. A regular meeting of the board ensures that potential issues are identified, brain-stormed, and solutions are decided. While non-executive directors are believed to be much autonomous, it may not result in much effective CG practices and may not advance performance. Nonetheless, the capacity of the board to supervise the organization's executives is anchored on its ability to access information. Executive directors have advanced knowledge of processes in the decision-making process and appraise top executive based on the value of their decisions that resulted in the statement of outcome for the organizations' financial and non-financial performance.

ii. Internal control processes and internal auditors: This encompasses policies executed by an organization's directors' board, the committee for audit, management, and employees to provide appropriate assurance of the organization accomplishing its goals. Internal auditors are employees in an organization who evaluate the design and execution of the organization's internal control process and the reliability and consistency of its financial reporting.

iii. Power balance: This implementation of power separation is encouraged in organizations; where distinct units check and balance one another's activity. One unit may recommend an organization-wide administrative change, the other unit could review the recommendation, and another unit may veto the recommendation, and yet another may evaluate the securing of interest of other stakeholders (i.e. customers, employees, shareholders).

iv. Remuneration: remuneration akin to performance-based is designed to correlate reward to employee performance. It could be in the cash form or non-cash form (i.e. shares, stock, etc.). These incentive schemes are mostly reactive with regards to the logic that it offers no avenue for preventing opportunistic conduct and mistakes, and may educe myopic behavior.

8. External corporate governance controls

Sreeti [21] posits that external CG controls involve the exercise of external stakeholders controls over the affairs of an organization. It includes:

i. Government regulations.

ii. Managerial labour market.

iii. Demand and evaluation of performance information (i.e. statements of finance).

iv. Media pressure.

v. Takeovers.

vi. Competition.

vii. Debt covenants.

9. Merit of corporate governance

Palia and Lichtenberg [22]; Black et al. [23], note the followings as benefits inherent in the rightful application of CG;

i. Ensures corporate success and economic growth.

ii. Maintains investors' confidence.

iii. Establishes a positive impact on the share price.

iv. Effectively minimizes wastages, corruption, risks and mismanagement.

Gompers et al. [24] maintain that good CG increases valuations and boost the profitability of the organization. Claessen et al. [25] note that better organizations frameworks benefit organizations through greater access to financing, lower cost of capital, better performance and more favorable treatment of all stakeholders. Donaldson [26] posits that good CG is important for increasing investor confidence and market liquidity. Frost et al. [27] state that improvements in CG practices ensure better disclosures in business reporting.

10. Stewardship theory perspective to corporate governance

The etymology of the stewardship theory is anchored in the field of psychology and sociology and its connotation according to Davis et al. [28] posits the protection and maximization of shareholders wealth via organization performance; this optimizes the steward's utility functions. In this analogy, stewards are organizations' management working for the interest of the shareholders. They secure and enhance profits for shareholders. Unlike the agency theory, the stewardship theory does not emphasize the view of individualism [29], but instead on the function of top executives as stewards, amalgamating their interest and goals with the organization. The stewardship view advocates that stewards are motivated and satisfied when organizational goals are attained.

Agyris [30] posits that the agency theory looks at an employee or people as an economic being, which suppresses an individual's ambitions. However, stewardship theory views the relevance of structures that equips the steward and offers optimal autonomy anchored on trust [29]. It emphasis the stature of employees or management to function autonomously, so that returns are maximized for the shareholders'. Hence, minimizing the costs focused on controlling and monitoring behaviors [28]. The stewardship concept suggests that a successful organization (not individual success) leads to happiness and hence motivate stewards [31].

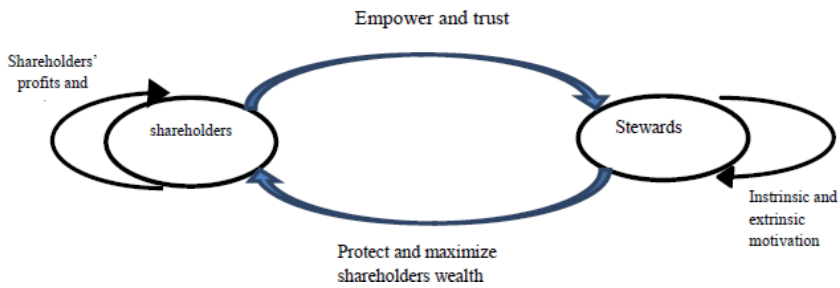

Figure 1.
The stewardship model. Source: [31].

Alternatively, Daly et al. [32] argue that to protect their reputations as decision-makers in organizations, management and directors need to optimally lead the organization to optimize non-financial and financial performance. Hence, Fama [33] posits that management and directors are likewise managing their jobs to be perceived as effective and result-oriented stewards of their organization, while, Shleifer and Vishny [34] insist that management return revenue to investors to foster a good reputation so they can re-enter the market for future finance. Peggy and Hugh [35] argue that unlike agency theory, stewardship theory helps in aligning the goals of managers and shareholders. When managers and shareholders' goals are aligned, organization performance is expected to increase as there is no conflict of self-interest (**Figure 1**).

11. Conclusion and prospect of corporate governance

An organizations' operations has impact that transcends the physical boundaries of their functioning, with influence on diverse issues of their environment (i.e. political, economic, legal, socio-cultural, etc.) which makes the role of their governance structural practices much strategic, and reinforces the need for sustainability. Today's CG structure and practice are constantly been scrutinized by diverse stakeholders as the easy resort to ethical, speedy, and sustainable enforcement of responsible corporate practices; this is necessitated by the negligence and slow pace of enacting legislative reform on such issues. Hence, CG when utilized as a tool possesses the capability to advance sustainable initiatives and engagement.

In prospecting it potency, the harnessing of this tool (i.e. corporate governance) demands a clear understanding of its potentials (i.e. concept of corporate governance, essence of corporate governance, scope of corporate governance, principles of corporate governance, internal corporate governance controls, external corporate governance controls, merit of corporate governance, and stewardship theory perspective to corporate governance, etc.). A key factor in this harnessing is the activity of stakeholders; corporation accountability must transcend beyond their shareholder to incorporate the stakeholders, and an effective framework should be streamlined to optimize the interactions of such engagement. Also, the GC actors of tomorrow must understand and have an experimental knowledge of their environment and the core of sustainability (i.e. today's action in exploring opportunity must not hinder the future availability and exploration of opportunities).

CG impacts the optimality of performance at the organizational and national level. Having explored the labyrinth of CG with a focus on the concept of CG, the essence of CG, the scope of CG, principles of CG, internal CG controls, external CG controls, the merit of CG, and stewardship theory perspective to CG, it is the author's opinion that CG plays a quintessential role in furthering the posterity and optimal sustainability of an organization's objectives as well as a nations' relevance at the global scene. Nonetheless, there is a need for optimizing the execution of CG practices via optimizing the flow of information, benchmarking best practices and standards, sustained commitment of all relevant stakeholders, and rewarding incentives to practitioners of CG practices.

The future of CG lies in their relevance today, and their ability to adapt to changing times as well as cover legal loopholes that undermine their potency. The practicality of that relevance for CG practices is strengthened in the involvement of relevant stakeholders in the formulation, enactment, and execution of such practices. Although the structuring, operating and controlling of an organization or nations' interest is not possible without the involvement of CG practices, CG practices can not be viable without the participation of relevant key stakeholders. The value of CG practices in today's organizations will continue to evolve as organizations are becoming agents of social re-engineers and not just economic transformers.

Conflict of interest

The authors declare no conflict of interest.

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Chapter 13

Board Gender Diversity and Firm Risk

Zyed Achour

Abstract

In this chapter, we address the following question: Does board gender diversity affect global risk? Drawing on agency theory, upper echelon theory, and human capital theory, we hypothesize that gender diversity on the board of directors will decrease the volatility of firm risk. Applying fixed effect estimation on a panel data of listed French companies (SBF120) for the years 2011–2018, the results show a negative link between the percentage of female directors on the board and the standard deviation of monthly stock return as firm risk proxy suggesting that the inclusion of more women on corporate boards could improve financial stability. Our findings contribute to the literature by providing empirical evidence from France occupying the first place at the European level with the most female presence on the boards of directors.[1]

Keywords: board gender diversity, board of directors, corporate governance, firm risk, SBF 120

1. Introduction

Recent years have been marked by an abundance of research, both theoretical and empirical, dealing with the impact of board gender diversity on firm performance. Results have often remained mixed and the mechanisms by which gender diversity could impact global performance remain ambiguous and not fully understood. Furthermore, little attention has been devoted to gender diversity on the board of directors as an instrument moderating firm risk.

The board of directors plays a crucial role in strategies adoption and the firm's future direction design. In addition, it is an essential corporate governance mechanism. In literature, it is well accepted that the board of directors is a scarce, valuable, and inimitable resource favoring the creation of sustainable competitive advantage. However, its effectiveness remains largely dependent on its size and member's composition. For instance, its decisions would be influenced by its size, member's background, level of education, ages, as well as by its "degree of feminization." Indeed, gender diversity is seen as one of the mechanisms of corporate governance and a key element in policymaking.

[1] BoardEx Global Gender Balance Report 2021. https://www.boardex.com/2020-global-gender-diversity-analysis-women-on-boards/

The majority of European countries, (among them France, Italy, and Norway),[2] have adopted during the last decade legislation imposing greater representation of the female gender on the board of directors. The main objective of these policies was to combat gender inequality, which largely dominates board composition. Since then, the question on the implications of board gender diversity on a company's outputs has aroused much interest among researchers and academics. However, although several studies have found that women, compared to men, are psychologically more risk averse [1–3], it is not clear that the presence of women on boards of directors leads to better performance even less and reduces overall firm risk.

Indeed, many empirical studies have attempted to study the impact of gender diversity on firm financial performance in general and on firm global risk in particular [4–8], the results did not allow ruling on a stable relationship between gender diversity on board of directors and firm risk. Indeed, while some research does not show any effect, asserting that women directors do not necessarily mitigate firm risk [7, 9] but their presence can increase the supervisory function of the board of directors, some other research has shown that the proportion of board members female is associated with an increased risk [10–12]. In contrast, other studies essentially mobilizing the resource dependency theory [13], feminist theory [14], and social identity theory [15] have shown a negative impact of the female gender on risk taking and firm financial stability. For instance, a low variability in stock market returns has been observed in companies with mixed membership on boards of directors [16]. Similarly, Hutchinson et al. [17] have shown that the feminization of the board of directors moderates the excessive risk-taking of the company. Finally, other research has established that the proportion of women on boards needs to reach a "critical mass" to have an impact on the risk [18].

The present study aims to contribute to the literature dealing with gender diversity on firm global performance by examining, in particular, the impact of gender diversity on firm risk in two ways. First, on a theoretical level, it seeks to strengthen the hypothesis of a negative link between diversity in the composition of boards of directors and corporate risk. Second, on an empirical level, this study, conducted in the French context, seeks to enrich the debate on the consequences of gender diversity on firm global performance, especially since the conclusions drawn by previous research remain mixed. The choice of the French case and the analysis period (2011–2018) are certainly not arbitrary. Indeed, it coincides with the adoption of the Copé-Zimmermann law (2011), which imposes quotas for women on boards of directors and supervisory boards. Besides, according to the Global Gender Balance Report (2021), France took the top spot with 44% of board positions held by women.

The remainder of this chapter is organized as follows: In Section 2 discusses the theoretical foundations of the impact of board gender diversity on the firm risk and justify the hypothesis of a negative impact. Section 3 presents the proposed methodology of empirical validation. Finally, Section 4 discusses the results and conclusions as well as the managerial implications of this research.

2. Literature review and hypothesis development

The link between board gender diversity and firm risk may be apprehended from many theoretical lenses.

Agency theory highlights the divergence of interests between managers and shareholders. It argues that managers, because of their opportunism, can be driven

[2] Copé-Zimmermann law (2011) which imposes quotas for women on boards of directors and supervisory boards.

into practices of self-interest's maximizing to the detriment of those of shareholders [19]. This situation is often facilitated by weak internal control exercised by homogeneous boards of directors. Thus, due to overconfidence and weak control, male managers, are likely to be engaged in risky investments, discretionary spending, and excessive indebtedness. Moreover, several studies have shown that women's presence on boards of directors reinforces the monitoring mechanisms, makes it possible to resolve agency conflicts, and moderates risky decision-making. For example, Mirza et al. [20] have shown that, by playing their supervisory role in the board, women improve resource allocation and limit the problem of overinvestment problems. Jizi and Nehme [21] noted that female presence on boards makes it possible to mitigate firm risk by reducing stock return volatility. In recent research, Zhou [22] was able to demonstrate on a sample of 2825 Chinese companies and 21,420 firm-yearly observations that women managers will reduce firm risk distress by a quarter by going through better cash management. The author also emphasizes that the presence of women directors enjoys better access to bank loans with greater frequency to reduce insolvency risk.

According to gender socialization theory [23], women have distinct traits, values, and interests because of the personalities they develop during childhood. Women show more altruism and compassion and care more about others. Female managers are also more attached to ethical codes [24] and less tempted by corruption [25].

Regarding risk preferences, women would be more hostile to risk than men, especially in financial decisions. This could be explained by the fact that men are overconfident and rely on their personal experiences and their own risk assessments, leading them to make riskier decisions than women who are less self-confident and tend to dodge risky decisions [26].

Upper echelon theory [27] suggests that strategic choices are determined and influenced by the values and cognitive bases of the dominant actors in the organization. Thus, preferences and decisions are likely to be predicted by managerial background characteristics. According to [28], decisions made by directors are impacted by their psychological traits. Women on boards, known for their sensitivity to risk, would favor less risky policies. Under this perspective, Jeong and Harrison [29] argue that differences in business performance can be explained by the reduction in strategic risk-taking adopted by women. Li and Zeng [30] were able to highlight the importance of the female gender in the financial decision-making process and the stock return crash risk prevention. Likewise, Perryman et al. [31] found that companies with greater gender diversity in top management teams have lower market risk and offer better performance.

According to the social identity theory [15] a person's idea of their own identity is based on their membership in a group. Any behavior will change depending on the identity of the group to which a person belongs. The presence of women on boards of directors, who are less willing to take risks, may have an impact on decision-making processes.

Human capital theory [32] postulates that board diversity may produce benefits in terms of efficiency and control. Board members with heterogeneous skills, preferences, and backgrounds constitute a valuable, unique, inimitable, and hardly transferable resource. Human capital theory joins resource dependence theory [33] suggesting that directors bring benefits to the organization (information, networks, preferential resources, and legitimacy). According to Ferreira [34], gender diverse board has access to a larger pool of resources. It is, therefore, expected that board women presence would influence firm financial performance and firm risk levels. Mobilizing these theoretical approaches, Farag and Mallin [35] concluded that the vulnerability of banks to crises is likely to be reduced by a critical mass of female representation. De Cabo et al. [36] observed that low-risk European banks have a higher proportion of women on boards of directors. Saeed et al. [37] found that board gender diversity is inversely related to business risk in emerging and developed countries. In contrast, Talavera et al. [38] could not find a significant association between found no significant association between women directors and firm risk. Yang et al. [39] found a negative effect of mandated female representation on firm performance and firm risk.

Based on the above theoretical and empirical literature, we assume the existence of significant negative impact women presence on board on the corporate Global risk. Hence, we formulate our main hypothesis as follows:

H: gender diversity on the board of directors has a negative effect on firm global risk.

3. Research methodology

3.1 Sample and data

For the purposes of this study, we used a sample of French companies belonging to the SBF 120 index over the period 2011–2018. The SBF 120 index includes the 120 most important companies in terms of market capitalization and trading volumes on the Euronext Paris market. This 10-year period analysis allowed us to constitute a large panel of observations enriching the results and the validity of the econometric tests. Financial institutions were excluded from the sample due to differences in their specific governance and accounting systems. The final panel consisted of 64 companies. Thus, the study covers 576 firm-year observations. Data about women's presence on board were hand-collected from the reference documents and annual reports available on the firms' websites. Financial and accounting data were obtained from the ThomsonOne database.

Table 1 presents the firm distribution by industry within the sample.

3.2 Variables description

In financial theory, two components are used to measure the risk of the company. On the one hand, market risk generally resulting from factors exogenous to the company such as fluctuations in supply and demand, interest rates, and input

Sector	Number	%
1. Oil and gas	5	7.8
2. Basic materials	3	4.6
3. Industrial	16	25
4. consumer goods	12	18.8
5. Health	7	10.9
6. Consumer services	12	18.8
7. Telecommunications	1	1.5
8. Utilities	3	4.7
9. Technology	5	7.8
Total	64	100

Table 1.
Distribution of companies by industry.

costs. On the other hand, the idiosyncratic risk is inherent in the company's operations and its management expertise. The overall risk of an investment is commonly measured by the standard deviation of its return [40–42]. In accordance with previous research [43–45], we use the standard deviation of monthly stock returns over a one-year period as global risk proxy (RISK) formulated as follows.

$$\sigma R_{it} = \sqrt{\frac{\sum_{i=1}^{n}\left(R_{it} - \overline{R}\right)^2}{n-1}} \tag{1}$$

σR_{it} = standard deviation of company's monthly stock return,
R_{it} = company's monthly stock return, $\overline{R}$ = company's average monthly stock return, n = Number of observation.

Thus, a higher standard deviation value reflects a higher risk.

The gender variable (GEND) was measured by the percentage of women on the board of directors (number of women on the board of directors/total number of directors). This measure, more and more used by similar researchers [5, 46, 47], makes it possible to go beyond the limits of binary measurements of women's presence and their representativeness in the boards and to take into account board size.

In addition, we have deemed it useful to introduce control variables that are likely to have an effect on the relationship between women's presence on boards of directors and firm risk.

First, the size of the board of directors (B-SIZE) was included as a control variable as a large board has more chance to contain female members. In addition, previous literature suggests that the size of boards of directors is a major determinant of its effectiveness and governance mechanism to protect company assets, to secure better allocation of resources, to limit managerial opportunism, and to prevent the risks of insolvency risk or dangers of risky investments. B-SIZE is measured by the number of directors on the board. Larger boards tend to be also associated with lower return volatility [48].

Second, R&D spending and innovation effort are considered as an indicator of risk-taking insofar as their impact often remains uncertain [7]. R&D intensity (RID), measured by the "R&D expenditures divided by total annual sales" ratio, was introduced into the model as a control variable. Third, we control the model by the

Variable	Abbreviation	Measurement
Firm global risk	RISK	Standard deviation of monthly stock return
Gender diversity	GEND	Percentage of women on board of directors
Board size	B-SIZ	Number of directors on the board.
Firm financial performance	FFP	Return On Assets ratio
Firm size	F-SIZ	Natural logarithm of total assets (in millions of Euros)
Leverage	LEV	Total debt to total assets ratio
R&D expenditure intensity	RDI	R&D expenditures divided by total annual sales
Gender diversity	GEND	Percentage of women on board of directors
Board size	B-SIZ	Number of directors on the board

Table 2.
Variables description.

leverage (LEV). Leverage is considered to be an indicator of solvency often associated directly with firm financial risk. According to Bodie et al. [49], leverage level allows welling assess the risk of financial distress and bankruptcy and provides information on the ability of the company to honor its financial commitments. Among others, Abobakr and Elgiziry [50] found that percentage of females to the total board to be significantly negatively correlated to ratio leverage. We define leverage as the "total debt to total assets" ratio. Forth, firm size (F-SIZ), measured by the natural logarithm of total assets (in millions of Euros), was introduced into our model as a control variable. In this regard, Bruna et al. [9], for example, have shown that risk aversion was negatively associated with firm size. Finally, since profitability level could imply greater risk-taking [51], we opted for controlling for profitability (FFP) calculated as the Return on Assets. For a detailed description of variables see **Table 2**.

3.3 Model

To test our hypotheses, we use panel data regression running the following model.

$$RISK_{it=}\ f\left(GEND_i^{t,}\ B-SIZ_i^{t},FFP_i^{t},F-SIZ_i^{t},LEV_i^{t},RID_i^{t}\right) \qquad (2)$$

Model 1

$$\begin{aligned} RISK_{it} = {} & \beta_0+\beta_1 GEND_{it}+\beta_2 B-SIZ_{it}+\beta_3 FFP_{it}+\beta_4 F-SIZ_{it} \\ & +\beta_5 LEV_{it}\ \beta_5 RID_{it}+\mu_i+e_{it} \end{aligned} \qquad (3)$$

In equation 3, the index t presents the year of the observation, while the index i refers to the company. The variable RISK is our dependent variable. GEND is the proportion of women on the board of directors. B-SIZ, FFP, F-SIZ, LEV, and RID are our controls as defined above. The β_j with j {0…6} are the model parameters. μ is the time fixed effect and *e* is our idiosyncratic error term.

4. Results and discussion

4.1 Descriptive statistics

Table 3 reports the descriptive statistics for all variables. The data show that the average 10-year stock return volatility is 34.6%, with a minimum and a maximum of 1.3 and 90%, respectively. Nevertheless, RISK presents a significant dispersion with a high standard deviation, which is understandable given the diversity of the firms being studied. Regarding gender diversity, the proportion of women is 23.8% of the total number of directors. It should be noted that this average has increased considerably over time after the Copé-Zimmermann enacted the law in 2011. The average size of boards of directors is around 14, and the average return on assets of the companies in our sample is around 4%.

4.2 Multivariate analyzes

The correlations between all test variables are reported in **Table 4**. At this point, and without claiming to draw a definitive conclusion, we notice that GEND has a high negative correlation with the risk metric. This is consistent with our hypothesis

Variable	Obs.	Mean	Std. deviation	Max	Min
RISK	576	0.346	0.205	1.441	0.013
GEND	576	0.238	0.1152	0.609	0
B-SIZ	576	13.93	3.696	25	5
FFP	576	0.039	0.049	0.7751	−0.3374
F-SIZ	576	9379	1438	12,284	6463
LEV	576	0.372	0.2081	0.886	0.082
RDI	576	0.0451	0.1055	0.1815	0.001

Table 3.
Descriptive statistics.

	1	2	3	4	5	6	7	VIF
1. RISK	1							
2. GEND	−0.1315***	1						1.19
3. B-SIZ	−0.0542**	0.1654***	1					1.05
4. FFP	0.1101**	0.2211***	0.059	1				1.90
5. F-SIZ	−0.1151*	0.2650	0.4520***	0.0568	1			1.20
6. LEV	0.0412*	−0.0115	0.0684	0.2315***	−0.0050	1		1.05
7. RDI	0.0954**	0.1154**	−0.0019	0.1345**	−0.0642	−0.0290	1	1.85
							Mean VIF	1.37

*This table presents the correlations between all variables and the variance inflation factor (VIF). It shows that correlation between the explanatory variables as each of the variables used range from 1.05 to 1.90 along with mean VIF value below 10.*Significance at the 5% levels.*
***Significance at the 1% levels.*
****Significance at the 0.01% levels.*

Table 4.
Correlation matrix.

and is in line with the result of the current literature. GEND also has a strong correlation (p-value <0.0001) with both board size (0.1654) and financial performance (0.2211). This is reasonable as large boards are more likely to include the female gender. There is a significant correlation between risk and board size in our sample, which is consistent with previous researches [52]. Besides, we note a positive correlation at the 1% level of confidence between risk and ROA and a significantly positive association between risk and leverage ratio. Finally, there is a significant relationship between risk and R&D expenditures.

To test our hypothesis, we ran least squares regressions and then we had selected the appropriate estimation based on the different usage tests. Our estimation satisfies the assumptions of normality. Furthermore, we had ensured the independence between the error terms by the Durbin-Watson autocorrelation test and the absence of heteroscedasticity problems by the Breusch-Pagan test. Finally, the F-test allowed us to opt for the fixed-effect estimation, which allows overcoming unobserved heterogeneity issue over time.

According to **Table 5** results, the model's explanatory power is acceptable (R^2 within equal to 24.12%). The statistic of the Wald test (Wald Chi), presents a statistically significant p-value (Prob > Chi) at 1% level. The coefficient of the dependant variable (gender) is negative and significant (Coeff. = −0.903; t-stat = − 2.82)

Variable	Coefficient	t-statisc
Intercept	1.370***	23.6
GEND	−0.0903***	−2.82
B-SIZ	−0.0281**	2.29
FFP	0.0365	0.45
F-SIZ	−0.2017**	2.47
LEV	0.091*	2.46
RDI	0.0009***	5.49
observations	576	
R^2	24.12%	
R^2 ajusted	18.55%	
Wald Chi2	20.33	
Prob>chi2	0.0034	

This table presents results from fixed effects regression of the risk measure on board gender diversity, over the period 2011–2018. A firm's total risk (RISK) is the annualized standard deviation from the monthly stock returns over the past year. GEND is the percentage of women on the board of directors.
*Significance at the 10% level.
**Significance at the 5% level.
***Significance at the 1% level.

Table 5.
Multifactor regression results RISK as a dependant variable.

indicating that women board presence mitigates firm risk. This result supports our assumption; that is, to say that an increase in women representation on board decreases firm risk. It is also in line with the main arguments presented in our theoretical background. Women are less "adventurous" than men and are likely to have an innate aversion to risk. Then, this result joins those obtained in previous empirical research [5, 53]. However, these findings do not support those found by [9] who have found no evidence to support the assumption of a significant relationship between women on corporate boards and firm risk-taking on a sample of SBF 120 index listed companies. This can be explained by the fact that the authors carried out their investigation over the period 2006–2010 before the adoption of the Copé-Zimmermann law in 2011 or by the measurement of the risk retained.

Other than the GEND effect, we find a negative association between board size and firm global risk (under the 5% risk error). This is in line with the risk aversion hypothesis, which suggests that large boards tend to control leverage, as this will increase the volatility of equity returns [54]. Likewise, this can be explained by the fact that large boards can lead to slower decision-making processes and search for compromises inducing less risky behaviors. This result is in accordance with Nakano and Nguyen [52] who observed lower performance volatility and lower risk bankruptcy in companies with larger boards of directors. Another explanation could be found in the arguments put forward by Cheng [53] and Wang [54] suggesting that a high number of administrators would prevent boards from functioning properly, thus limiting performance variability. Bureaucracy and vulnerability to agency issues that characterize large boards may cause less performance volatility and higher risk.

The positive coefficient of the variable FFP confirms that risk has a positive effect on return on assets. However, this influence is not statistically significant. The proportion of women on the board of directors, therefore, has no impact on economic performance. This observation is inconsistent with the risk-based rationale presented by Akbas et al. [55] according to which a greater risk is not associated with better expected profitability, nor with the results of Nartea et al. [56] who determined that risk has a positive effect on return.

In addition, we found a negative link between firm size and risk. This may be because large companies, which enjoy better governance and less information asymmetry, tend to control the volatility of stock returns [57]. This negative relationship was also found by Damanpour [58] who argues that large companies better control fluctuations in stock prices.

Also, **Table 5** indicates a coefficient on leverage variable of 0.091, significant at 5% level of confidence (t-statistics of 2.46). These results confirm the close link between stock return volatility the leverage suggesting that the volatility of returns represents a risk hindering the company' ability to go for debt financing [59].

Finally, R&D intensity has a coefficient of 0.0009 (t-statistic 5.49) significant at 1% level. This relationship most likely exists. One of the plausible explanations has been given by Mazzucato and Tancioni [60] suggesting that the volatility of stock returns is indeed linked to innovation since financial markets react to signals provided by companies about their future growth prospects through their R&D spending and innovation behavior.

5. Conclusion

The aim of this research was to examine the impact of gender diversity on firm risk. More specifically, we studied the relationship between board women presence and firm global risk measured by stock return volatility. To this end, we used a sample of French companies listed SBF 120 over the period 2011–2018. Using a panel data regression method, we were able to highlight a negative and statistically significant link between the percentage of women on boards of directors and firm risk. Our results suggest that better women representativeness on boards could lead to better financial performance through risk mitigation. This is in line with gender socialization theory suggesting that women would be more risk-averse as well as with the agency theory, which states that women would exercise better control and participate actively in conflict resolution. The potential explanations for this negative effect would lie not only in the crucial role played by women in boards in ensuring better risk oversight [7, 13], in the reduction of agency costs [61], but also in the risk aversion generally observed among women [62]. Our results help to enrich the debate on this issue. They are consistent with a current of the literature [26, 31, 63] but remain in contradiction with the results of other empirical research [9]. Thus, this should lead us to consider the role of contingent variables that may moderate/mediate this relationship, such as cultural differences, organizational visibility, or intersectorial differences. On the other hand, we should also recognize that reverse causation is likely to exist and deserves to be examined, which means that companies with lower risk might intentionally choose more female directors [36]. Thus, it is important to address the issue of endogeneity when studying the relationship between gender diversity on the board of directors and business risk.

Moreover, although our results suggest that women inclusion on boards is likely to strengthen corporate governance mechanisms, mitigate risks, and maximize value, it is important to note that such appointments should not be a reaction to normative pressures just to legitimize governance modes or to comply with rules deemed socially acceptable. Our results should therefore not be analyzed from an instrumentalist perspective, that is to say, from purely economic and financial angles, but rather based on notions of gender equity and justice as well as on fundamental legal principles. Hence, it is also strongly recommended that nomination and governance committees in the boards of directors take steps to achieve men-women parity within boards. The laws of the various European countries appear to be evolving in this direction.

Our study has also several limitations. First, by focusing our investigation only on large companies, the results cannot be generalized. The extension of the sample to cover small- and medium-sized enterprises would make it possible to give more robustness to observed results. The second limit is related to the risk measurement: the variability of stock return may not capture all risks incurred by the company. Finally, an impact of the female presence may not be immediate: Considering a delay effect (by introducing lagged variables in the econometric model) would probably be interesting since the appointment of women may take time to observe its risk impact.

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Edited by Okechukwu Lawrence Emeagwali and Feyza Bhatti

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Published in London, UK

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ISBN 978-1-83969-817-0