CHARTERED GOVERNANCE
Hong Kong

Corporate Governance Paper Competition and Presentation Awards 2022

Do you think better governance leads to a better future for organisations?

Contents

The Hong Kong Chartered Governance Institute

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HKCGI Corporate Governance Paper Competition and Presentation Awards

The Annual Corporate Governance Paper Competition and Presentation Awards organised by the Institute aims at promoting the importance of good governance among local undergraduates and providing them with an opportunity to research, write and present their findings and opinions on the selected theme.

Current undergraduates of all disciplines in Hong Kong were eligible to enrol for this competition in a team of two to four members. Participants are required to submit a paper of not more than 5,000 words in English on the theme of the year's competition.

The six finalist teams with the highest total scores were invited to present their papers to compete for the Best Presentation Award and the Audience's Favourite Team Award.

Topics of previous years' competition

2007 Corporate Social Responsibility
2008 Corporate Risk
2009 Investor Relations
2010 Disclosure & Transparency
2011 Best Practices vs Practicality
2012 The 21st Century Board
2013 Corporate Governance means more Reports and Disclosure?
2014 Changing Rules, Changing Roles – Managing It All
2015 Risk Management and Corporate Governance
2016 Internal and External Forces for Better Corporate Governance
2017 Corporate Governance and Business Sustainability
2018 Corporate Governance – Challenges and Opportunities in the Digital Age
2019 How is good governance of Non-Governmental Organisations (NGOs) similar to, and different from, good corporate governance of public companies age
2020 ESG Reporting: A Value Proposition? Yes or No?
2021 Is it possible to tie governance with a sense of purpose given the myriad of stakeholders' interests?
2022 Do you think better governance leads to a better future for organisations?

Prizes of the competition

Paper Competition	**Best Paper Award**	HK$11,000 plus publication of the paper in 'CGj', the monthly journal of the Institute
	First runner up	HK$7,000
	Second runner up	HK$5,000
	Three Merit Prizes	HK$1,000 each

Paper Presentation	**Best Presentation Award**	HK$6,000
	First runner up	HK$3,000
	Second runner up	HK$2,000
	Three Merit Prizes	HK$1,000 each
	Audience's Favourite Team	HK$2,000

Best Paper Award

Winona Lau and Yvonne Lau

The Chinese University of Hong Kong, Bachelor of Medicine and Bachelor of Surgery programme and The University of Hong Kong, Bachelor of Business Administration in Accounting and Finance

Introduction

Major crises are often the catalyst accelerating corporate governance reform. The 1997 Asian financial crisis and the global financial crisis of 2007–2008 spawned an awareness of the importance of corporate governance to manage the risk of corporate failure.[1] An increased recognition of the need for a longer-term risk horizon to transform challenges into opportunities is beneficial to organisations when operating in a dynamic and turbulent business environment.

Despite emerging beneficial trends in corporate governance, concerns over how corporations should be governed have been accentuated with the rapid internationalisation of corporate activities. The massive increase in the scale and activities of corporations has had a considerable impact not only on directors and shareholders, but also on the wider society.[2] Given the rapidly changing funding world and increased stakeholder demands, organisations have been continually reprioritising their resource allocation in pursuit of sustainability to safeguard and enhance reputation.[3]

In light of the imminent challenges related to climate change and Covid-19 in the 21st century, rethinking the purpose of corporate governance is vital. Embedding

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1 Yan-Leung Cheung, J Thomas Connelly, Ping Jiang and Piman Limpaphayom, 'Does Corporate Governance Predict Future Performance? Evidence from Hong Kong', *Financial Management* 40, no. 1 (2011): 159.

2 Thomas Clarke, *Corporate Governance: A Survey* (Cambridge: Cambridge University Press, 2021), 5.

3 Rameshwar Dubey, Angappa Gunasekaran, Stephen J Childe, Thanos Papadopoulos, Benjamin Hazen, Mihalis Giannakis and David Roubaud. 'Examining the Effect of External Pressures and Organizational Culture on Shaping Performance Measurement Systems (PMS) for Sustainability Benchmarking: Some Empirical Findings', International Journal of Production Economics 193 (2017): 65-66.

environmental and social perspectives into corporate governance practices is imperative to achieve sustainability.[4] Long-term organisational sustainability is an enabler of long-term growth and value creation, which is the key for future organisational success.[5] To enhance the investment climate, corporations are compelled to rebuild investor trust through comprehensive governance practices. A better future for organisations will be built on sustainable inclusive growth in the long run, as well as through trust based on a proactive approach to governance.

Theoretical background

Corporate governance

A generic definition of corporate governance is 'the system by which companies are directed and controlled'.[6] Corporate governance focuses on processes and organisational structures that determine an organisation's direction, control, accountability and management of human relationships.[7] Traditionally, the purpose of corporate governance has been conceptualised by agency theory as maximising shareholder value.[8] Nevertheless, an overemphasis on profit maximisation was later found to be one of the underlying causes of governance crises and corporate failure in the 2000s.[9] Perceiving corporations as having a single purpose of orientating governance practices towards profit-maximisation has in fact narrowed the understanding of the objective of corporate governance.

An adequate understanding of the complexities of corporate governance will require consideration of multiple theoretical perspectives developed after agency theory.[10] Transaction cost, stewardship, stakeholder and managerial theories are all notable perspectives that provide a better conception of the dilemmas involved in corporate governance.[11] A wide diversity of corporate governance systems has been derived from different perceptions of business objectives and is based on 'historical, cultural and institutional dilemmas'.[12] Convergence theorists, however, assert that no one system should be considered superior.[13] Multiple effective configurations of governance practices are possible in a multifaceted world of business.[14]

Governance best practices

Sufficient flexibility in governance frameworks has been suggested in the G20/OECD Principles of Corporate Governance. OECD illuminates that organisations are operating under widely different circumstances, which requires varying means for achieving identified objectives.[15] Innovative and adaptive practices that take evolving operational conditions into account will create competitive advantage for organisations.[16] Multiple governance guidelines for listed companies, as well as for non-profit organisations, have been published by governments internationally.

The essence of good governance and recommended best practices is that 'stronger growth and inclusive societies' in the long-term can be supported through high-standard governance practices in organisational

4 HKEX, *Making inroads into good Corporate Governance and ESG Management,* December, 2020, 3–4, www.hkex.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Corporate-Governance-Practices/Practitioners_insights.pdf?la=en

5 Hulya Julie Yazici, 'An Exploratory Analysis of the Project Management and Corporate Sustainability Capabilities for Organizational Success', *International Journal of Managing Projects in Business* 13, no. 4 (2020): 813.

6 Adrian Cadbury, *Report of the Committee on the Financial Aspects of Corporate Governance* (London: Gee, 1992), 14–15.

7 OECD, *G20/OECD Principles of Corporate Governance,* 30 November 2015, 9–11, www.oecd-ilibrary.org/governance/g20-oecd-principles-of-corporate-governance-2015_9789264236882-en

8 Heiko Spitzeck and Erik G Hansen, 'Stakeholder Governance: How Stakeholders Influence Corporate Decision Making', *Corporate Governance* (Bradford) 10, no. 4 (2010): 379–80; Gerald F Davis, 'New Directions in Corporate Governance', *Annual Review of Sociology* 31, no. 1 (2005): 144–46.

9 Steven C Currall and Marc J Epstein, 'The Fragility of Organizational Trust: Lessons From the Rise and Fall of Enron', *Organizational Dynamics* 32, no. 2 (2003): 193–196.

10 Igor Filatotchev and Mike Wright. 'Methodological Issues in Governance Research: An Editor's Perspective', *Corporate Governance: An International Review* 25, no. 6 (2017): 454–55.

11 Clarke, *Corporate Governance: A Survey*, 7–8.

12 Eduardo Schiehll and Henrique Castro Martins, 'Cross-National Governance Research: A Systematic Review and Assessment', *Corporate Governance: An International Review* 24, no. 3 (2016): 182–183; Clarke, *Corporate Governance: A Survey*, 3.

13 Christel Lane, 'Globalization and the German Model of Capitalism – Erosion or Survival?' *The British Journal of Sociology* 51, no. 2 (2000): 209–10.

14 Clarke, *Corporate Governance: A Survey*, 12.

15 OECD, *G20/OECD Principles of Corporate Governance,* 30 November 2015, 14, www.oecd-ilibrary.org/governance/g20-oecd-principles-of-corporate-governance-2015_9789264236882-en

16 Clarke, *Corporate Governance: A Survey*, 11–12.

structures, internal controls, risk management, disclosure and transparency.[17] Corporate governance paradigms have been evolving over time in response to the dynamic economic and social contexts (Figure 1). Corporate responsibility for environmental and social sustainability has preoccupied the purpose of corporate governance in the 21st century.[18]

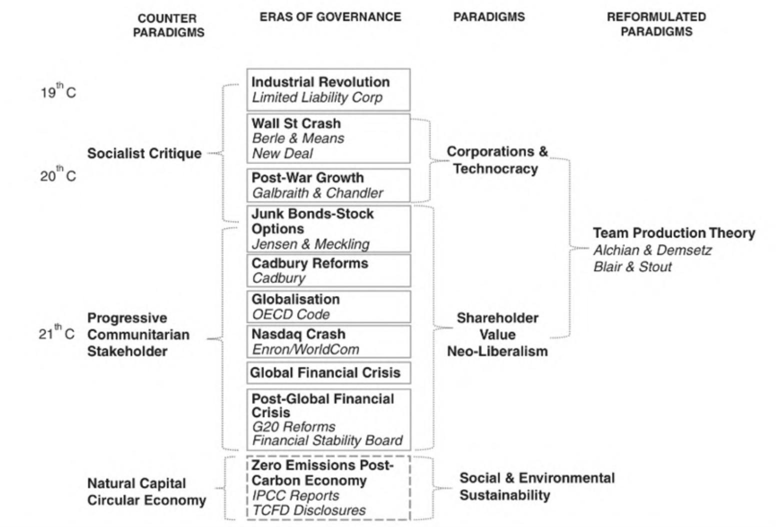

Figure 1: Evolution of corporate governance paradigms[19]

ESG and corporate governance

Corporate governance mechanisms are deemed to have shaped organisational contributions to social and environmental matters.[20] Corporate governance structures determining the role and responsibility of stakeholders, such as the risk committee and the board of directors, help to monitor and control company involvement in environmental, social and governance (ESG) matters.[21] Organisations engaging in ESG-related practices and ESG disclosure contribute to sustainable development goals, committing themselves to a more sustainable future.[22] A more sustainable future reduces risks and uncertainties, and balances the needs of the wider society.[23] This aligns with the goal of corporate governance, which is to 'support stronger growth and inclusive societies' in the long-term. A company's approach to ESG is thus also a bellwether for future governance capability.

Corporate governance and the long-term future

Good corporate governance is often associated with future organisational success.[24] In order to succeed in the future, it is widely accepted today that organisations should strengthen their corporate sustainability capacity.[25] Sustainability entails three interdependent dimensions, namely economic, social and environmental

17 OECD, *G20/OECD Principles of Corporate Governance,* 30 November 2015, 7, www.oecd-ilibrary.org/governance/g20-oecd-principles-of-corporate-governance-2015_9789264236882-en; HKEX, *Appendix 14: Corporate Governance Code,* June 22, 2022, 1–9, www.hkex.com.hk/-/media/hkex-market/listing/rules-and-guidance/listing-rules-contingency/main-board-listing-rules/appendices/appendix_14

18 Clarke, *Corporate Governance: A Survey*, 67–68.

19 Clarke, *Corporate Governance: A Survey*, 67.

20 Siti Nurain Muhmad, Akmalia M Ariff, Norakma Abd Majid and Khairul Anuar Kamarudin, 'Product Market Competition, Corporate Governance and ESG', *Asian Academy of Management Journal of Accounting and Finance* 17, no. 1 (2021): 70.

21 Hasan Mohamad Bamahros, Abdulsalam Alquhaif, Ameen Qasem, Wan Nordin Wan-Hussin, Murad Thomran, Shaker Dahan Al-Duais, Siti Norwahida Shukeri and Hytham M A Khojally, 'Corporate Governance Mechanisms and ESG Reporting: Evidence from the Saudi Stock Market', *Sustainability* (Basel, Switzerland) 14, no. 10 (2022): 6202. https://doi.org/10.3390/su14106202

22 International Federation of Accountants, *Understanding Value Creation*, 25 June 2020, 7–8, www.ifac.org/knowledge-gateway/preparing-future-ready-professionals/publications/understanding-value-creation

23 World Bank Group, *Green, Resilient and Inclusive Development,* October 2021, 1–6, https://openknowledge.worldbank.org/handle/10986/36322

24 HKEX, *Making inroads into good Corporate Governance and ESG Management,* December 2020, 6, www.hkex.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Corporate-Governance-Practices/Practitioners_insights.pdf?la=en

25 Yazici, 'An Exploratory Analysis of the Project Management and Corporate Sustainability Capabilities for Organizational Success', 811–13.

sustainability.[26] While a step-up in resources is required to achieve sustainability, good governance that fosters 'economic efficiency, sustainable growth and financial stability' underpins long-term growth and value creation for shareholders and the wider society.[27] Long-term value creation for all key stakeholders helps instil trust and confidence into key stakeholders, incentivising them to partner, invest or fund an organisation on an ongoing basis.[28]

'Future' and 'long-term' are vague concepts compared with concrete time horizons, despite being commonly used as a timeframe. Time scales chosen in different subject matters may vary due to epistemic considerations and practical limitations. According to the principle of intergenerational equity, the long-run time frame in sustainability should consider at least two generations, that is at least 25 to 50 years.[29] Although the principle suggests the consideration of at least two generations, an upper limit of 50 years into the future is often observed when making references to the 'long term' and the 'future' in an anticipatory perspective.[30] A time horizon beyond 50 years increases uncertainties.

Factors affecting the future of an organisation

Stakeholder trust

Trust is a subjective probability in which a person or a group assesses that a particular action will be performed.[31] It boosts customers' confidence and loyalty, thus increasing the revenue of companies. Data reveals that companies with trust are 2.5 times more likely to show better financial performance and this benefit is termed 'high-trust dividend'.[32] Building trust also attracts and secures funding. It is observed that willingness to invest has a positive relationship with investors' level of trust in the organisation.[33] In terms of non-profit organisations, their operation relies heavily on grants and donations. Trust increases the willingness and confidence of donors and funders to donate and award grants, as well as attracts volunteers to serve in fund-raising events. With stable, or perhaps expanding, profits and funds, an organisation can achieve financial sustainability. From the perspective of employees, trust enhances their engagement and commitment to the organisation, thus retaining talent for the organisation.[34] Talent retention is beneficial to the long-term operation of an organisation since it guarantees quality of work and thus customers' and shareholders' satisfaction, maintains positive organisational culture and allows the efficacious nurturing of talents for the succession of roles.[35]

Risks

With the rapid social, political, economic and environmental changes, organisations are constantly facing different risks.

Governance risks

The roles and responsibilities of directors and senior managers are dynamic due to the ever-changing legal duties and expectations from stakeholders.[36] Role ambiguity and conflicts are common under these circumstances, resulting in ineffective and inefficient management of the organisation, since time-consuming

26 Tobias Hahn, Jonatan Pinkse, Lutz Preuss and Frank Figge, 'Tensions in Corporate Sustainability: Towards an Integrative Framework', *Journal of Business Ethics* 127, no. 2 (2015): 297–298.

27 OECD, *G20/OECD Principles of Corporate Governance,* 30 November, 2015, 3, www.oecd-ilibrary.org/governance/g20-oecd-principles-of-corporate-governance-2015_9789264236882-en; Cheung, Connelly, Jiang and Limpaphayom, 'Does Corporate Governance Predict Future Performance? Evidence from Hong Kong', 167.

28 International Federation of Accountants, *Understanding Value Creation*, 25 June 2020, 11 www.ifac.org/knowledge-gateway/preparing-future-ready-professionals/publications/understanding-value-creation

29 Paul Weaver and Jan Rotmans, 'Integrated sustainability assessment: What is it, why do it and how?', January 2006 *International Journal of Innovation and Sustainable Development* 1, no. 4, 8, https://doi.org/10.1504/IJISD.2006.013732

30 Anja Bauer, 'When Is the Future? Temporal Ordering in Anticipatory Policy Advice', *Futures : The Journal of Policy, Planning and Futures Studies* 101 (2018): 43.

31 Laura Bottazzi, Marco Da Rin and Thomas Hellmann, 'The Importance of Trust for Investment: Evidence from Venture Capital', *The Review of Financial Studies* 29, no. 9 (2016): 2287.

32 Stephen M. R. Covey and Douglas R. Conant, 'The Connection between Employee Trust and Financial Performance', *Harvard Business Review,* last modified 31 August 2021, https://hbr.org/2016/07/the-connection-between-employee-trust-and-financial-performance

33 Bottazzi, Da Rin and Hellmann, 'The Importance of Trust for Investment: Evidence from Venture Capital', 2315.

34 Deloitte Development LLC, 'The Future of Trust: A New Measure for Enterprise Performance – Deloitte', last modified 2021, www2.deloitte.com/content/dam/Deloitte/us/Documents/risk/future-of-trust-pov-21.pdf

35 Charity Nonde Luchembe Chikumbi, 'An Investigation of Talent Management and Staff Retention at the Bank of Zambia' (MBA thesis, Nelson Mandela Metropolitan University Business School, 2011), ii.

36 Gavin Nicholson and Cameron Newton, 'The Role of the Board of Directors: Perceptions of Managerial Elites', *Journal of Management & Organization* 16, no. 2 (May 2010): 205.

and redundant communication processes can be required for clarification of tasks.[37] It can also take years for every new batch of directors and managers to acquire knowledge and to accumulate the experience to determine where their expertise should be utilised, as well as how to collaborate with different members in the organisation.[38]

Financial risks

Weak management leads to poor cash flow management, which is the greatest factor disrupting profitability and sustainability of organisations, especially small- to medium-sized enterprises.[39] Poor management, such as ineffective checks and balances, creates opportunities for administrative employees to misuse or even embezzle the financial resources.[40] This not only results in a deficit of cash flow in the short term, but also leads to loss of funding in the long run when the image of the organisation is tarnished. For non-profit organisations, for one thing, donors' and funders' confidence in the organisation would be lowered in the event of scandals related to the misuse of funds. For another, funding is likely to be terminated when the organisation fails to accomplish its mission with a good use of its funds.

Operational risks

Following the Covid-19 pandemic, the practice of 'work from home' and online shopping has become more popular. It is foreseen that these trends will continue and become mainstream in the future. Thus, personal and business data, as well as the operational systems of organisations, are at a higher risk of being exposed and attacked, resulting in data leakage and operational system failure. This poses the threat of long-term business losses to organisations. After suffering from a data breach or cyberattack, the reputation of an organisation would be severely tainted, followed by the loss of customers and investors to its competitors. Studies reveal that 31% of people have terminated a relationship with an organisation that had a data breach.[41] The most severe blow to the future of an organisation is not a short-term revenue loss, but a long-term loss of business opportunities due to an increase in market share of its competitors. Worse still, when the long-term outlook of a company is grim, its stock price will drop for a significantly long period of time. A massive cyberattack can also cause a downgrade of a company's credit ratings, raising its cost of capital.[42]

Resource allocation

Resource allocation is the process of assigning and utilising available resources to support value creation in an organisation.[43] An organisation's directions for allocating its financial, technological and human resources greatly affect its future business performance.

Resource allocation for innovation

Product and technological innovation is an important strategy for an organisation to survive in the market by creating a competitive advantage over its competitors. Innovation also helps to enhance profitability of the organisation, thus meeting shareholders' expectations of corporate value maximisation.[44] Studies indicate that the research and development (R&D) expenditure of a firm has a positive relationship with its earnings growth.[45]

Resource allocation for environmental protection

Overexploiting natural resources and polluting the environment would increase cost of production in the future. Worse still, the exhaustion of natural resources in the supply chain and adverse business conditions brought by climate change can lead to the unviability of the company and the whole industry.

37 John Schulz and Christopher Auld, 'Perceptions of Role Ambiguity by Chairpersons and Executive Directors in Queensland Sporting Organisations', *Sport Management Review* 9, no. 2 (2006): 189.

38 Schulz and Auld, 'Perceptions of Role Ambiguity by Chairpersons and Executive Directors in Queensland Sporting Organisations', 196.

39 Newman Wadesango, Nyasha Tinarwo, L Sitcha and Severino Machingambi, 'The Impact of Cash Flow Management on the Profitability and Sustainability of Small to Medium Sized Enterprises', *International Journal of Enterprises* 23, no. 2 (2019): 17.

40 Vojko Potocan, Mustafa C Ungan and Zlatko Nedelko, *Handbook of Research on Managerial Solutions in Non-Profit Organizations* (Pennsylvania: IGI Global, 2017), 81.

41 Andrew Coburn, Eireann Leverett and Gordon Woo, *Solving Cyber Risk: Protecting Your Company and Society* (Newark: John Wiley & Sons, Incorporated, 2018), 9.

42 Coburn, Leverett and Woo, *Solving Cyber Risk: Protecting Your Company and Society*, 10.

43 Jingyi Wang, 'Time and Target Matter: Impact from Resource Allocation on Firm Performance' (MPhil thesis, The Chinese University of Hong Kong, 2017), 9.

44 Anjung Chung and Manseek Choi, 'The Effects of Business Strategy on the Association between R&D Expenditure and Future Firm Performance', *Journal of Applied Business Research* 33, no. 5 (Sep 2017): 1035, https://doi.org/10.19030/jabr.v33i5.10025

45 Asher Curtis, Sarah McVay and Sara Toynbee, 'The Changing Implications of Research and Development Expenditures for Future Profitability', *Review of Accounting Studies* 25, no. 2 (2020): 14.

Therefore, resource allocation for environmental management is proved to be associated with the higher competitiveness of an organisation, thus attracting business partners when higher and more sustainable profitability is expected, as well as enticing customers when the corporate image is polished.[46]

Better corporate governance and a better future

Better risk management and reduced risks

It is generally believed that the risk management of an organisation can 'create shareholders' value by mitigating and managing financial and operating imperfections and enhancing its opportunities'.[47]

Reducing governance risks

Role ambiguity and role conflicts can lead to weak management of organisations. To counteract this requires the efforts of directors to keep themselves up to date with their legal duties and to understand shareholders' expectations through internal discussions. In addition, incentives have to be created for managers, since the separation of ownership and management can easily lead to their pursuit of personal interests, instead of the company's interests as a whole.[48] Corporate governance mechanisms – including the protection of shareholders' rights through the legal system and performance-based compensation for managers, such as a share option plan or a share award scheme – can motivate managers to focus on the company's interests with which their personal interests are aligned.[49] Managers would then be motivated to communicate with other managers for clarification of roles and responsibilities for better utilisation of their expertise, thus attaining a better performance for more rewards. This argument is supported by research revealing that managers tend to increase workers' wages, but decrease plant creation when there is a reduction in corporate governance,[50] demonstrating the significance of corporate governance in controlling managers' behaviours. In addition, the presence of an effective board of directors provides strategic guidance for managers, as well as supervision of management as a whole,[51] minimising their role ambiguity and conflicts to construct and maintain good management practices in the long run.

Reducing financial risks

An effective board of directors oversees management of the organisation, including its cash flow management, minimising its risk of cash flow deficit. In addition to this, the board can prevent financial statement fraud and embezzlement. According to HKEX's Corporate Governance Guide for Boards and Directors, the core committees of the board include an audit committee, which is responsible for supervising the integrity of financial reporting and for monitoring internal auditors.[52] Another responsibility of the audit committee is to manage the independent external auditors,[53] who serve as the second line of defence against financial statement fraud, embezzlement, money laundering and other financial crimes in an organisation by reviewing the financial reports. For non-profit organisations, the presence of effective board management, independent audits and an audit committee is proved to be associated with its fund-raising abilities, because donors and grant-makers would have fewer concerns about misuse of the financial resources.[54]

Reducing operational risks

In an era of rapid technological advancement, cyber threat is a major risk faced by organisations, while corporate governance practices are becoming more important in managing cyber risks. The board of directors, ideally with cybersecurity experts incorporated, can put cyber risk management up for discussion during regular board meetings to improve the

46 Anđelka Stojanović, Isidora Milošević, Sanela Arsic, Ivan Mihajlović and Predrag Djordjevic, 'Importance of Environmental Sustainability for Business Sustainability', (2018): 3.

47 Abol Jalilvand and A G Malliaris, *Risk Management and Corporate Governance* (New York: Routledge, 2012), 1.

48 Jalilvand and Malliaris, *Risk Management and Corporate Governance*, 69.

49 ibid.

50 Marianne Bertrand and Sendhil Mullainathan, 'Enjoying the Quiet Life? Corporate Governance and Managerial Preferences', *Journal of Political Economy* 111, no. 5 (2003): 1046.

51 HKEX, 'Corporate Governance Guide for Boards and Directors', last modified December 2021, www.hkex.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Corporate-Governance-Practices/guide_board_dir.pdf

52 ibid.

53 ibid.

54 Erica Harris, Christine M Petrovits and Michelle H Yetman, 'The Effect of Nonprofit Governance on Donations: Evidence from the Revised Form 990', *The Accounting Review* 90, no. 2 (2015): 584–595.

organisation's capabilities and employee competencies in handling cyber risks.[55] The organisations' strategy in preventing and recovering from cyber threats can be reviewed by a risk management committee.[56] Thus, any potential risk factors, such as inappropriate data storage time or the absence of restrictions on employee access to information, can be detected and removed promptly. Remedial measures, for example, notifying related parties about the data leakage and giving suggestions to them to protect against further misuse of their information, should also be prepared to minimise impacts on brand image.[57] When cybersecurity is valued and prioritised in the organisational culture, managers and workers would be more aware of it, and related policies can be executed more smoothly.

Better resource allocation and improved sustainability

Innovation

Corporate governance is one of the most important determinants facilitating innovation, including product, service and technological innovation. Innovation requires a large amount of capital and human resources, and is a risky long-term investment since R&D takes a long time but does not guarantee success. Therefore, the firm, and thus directors and managers, have to be incentivised to take risks.[58] Corporate governance practices such as share option plans and share award schemes can create incentives for, and incorporate an organisational culture of, prioritising resources for innovation. The composition of the board of directors can also enhance resource allocation for innovation. In Hong Kong, listed companies are required to have at least three independent non-executive directors (INEDs) on the board of directors, although they may not necessarily be experts in the company's business.[59] Therefore, when the board of directors includes an INED who has information technology expertise and years of relevant experience, as well as extensive networks in his or her original industry, strategic guidance can be provided to the organisation during its process of innovation.[60]

Environmental protection

Innovation creates competitive advantages and enhances profitability in the long run, bringing sustainability to the organisation. However, this argument is only tenable when environmental protection is achieved, which relies on good corporate governance practices. Organisational culture that prioritises environmental protection would lay the foundation for directors and managers to take pollution, climate change, resource overexploitation and other environmental issues into account during resource allocation. More firms are going one step further by adopting 'environmental management systems', which require an audit evaluating the firm's current environmental performance, a plan with objectives and targets, and an action plan for the execution of policies.[61] It is found that a company prioritising environmental protection is equipped with unique capabilities that can outcompete its competitors.[62]

Case example: prioritising innovation and environmental protection

Ping An Insurance (Group) Company of China, Ltd, a Chinese financial conglomerate, has expanded its business into banking, healthcare, housing and other industries beyond insurance.[63] The company's move to invest in technologies, such as building in-house facial recognition and artificial intelligence, is one of the greatest factors leading to its success. The directors have a strong insight into innovation, so the culture of innovation is incorporated and prioritised in the organisation, as shown by the fact that 1% of the company's annual revenue is allocated to technology development.[64] Despite its efforts and success in innovation, the company is facing challenges brought

55 Vimal Mani, 'Redefining Corporate Governance for Better Cyberrisk Management', ISACA, last modified 2019, www.isaca.org/resources/isaca-journal/issues/2019/volume-4/redefining-corporate-governance-for-better-cyberrisk-management

56 ibid.

57 Jalilvand and Malliaris, *Risk Management and Corporate Governance*, 315.

58 Brian Bolton and Jing Zhao, 'What Matters in Corporate Governance and Innovation', (January 2018): 3.

59 HKEX, 'Corporate Governance Guide for Boards and Directors'.

60 Olof Brunninge, Mattias Nordqvist and Johan Wiklund, 'Corporate Governance and Strategic Change in SMEs: The Effects of Ownership, Board Composition and Top Management Teams', *Small Business Economics* 29, no. 3 (2007): 297.

61 GovHK, 'Corporate Environmental Management', last modified April 2022, www.gov.hk/en/residents/environment/compliance/cem.htm

62 Juan Santalo, Carl Kock and Luis Diestre, 'Corporate Governance & the Environment: Bad Discretion, Good Discretion and Environmental Firm Performance', (June 2005): 6.

63 Jessica Tan, 'Building a Tech-enabled Ecosystem: An Interview with Ping An's Jessica Tan', interview by Joe Ngai, *McKinsey Quarterly*, 4 December 2018, www.mckinsey.com/featured-insights/china/building-a-tech-enabled-ecosystem-an-interview-with-ping-ans-jessica-tan

64 ibid.

by climate change. For instance, heavy rain in some provinces in the Mainland has posed a significant challenge to its insurance business.[65] Therefore, the company has invested in green businesses and implemented policies to play a part in tackling environmental issues. For example, car insurance products have been developed for electric car owners to encourage the use of eco-friendly vehicles, thus meeting the goal of reducing carbon emissions.[66]

Better stakeholder engagement and increased trust

Good corporate governance ensures value creation for key stakeholders in the long run, fostering enduring relationships with them. Corporations should understand the focus of key stakeholders and address their concerns. This is important as mutually valued outcomes create trust and incentivise key stakeholders to continue to partner with the organisation, sustaining value creation in the future and driving organisational success.[67] In order to enhance an organisation's stakeholder management capacity, defining and analysing key stakeholders is essential. Good governance will acknowledge stakeholder interests and their contribution to the long-term success of organisations.[68]

External stakeholder engagement

Corporate governance provides mechanisms that ensure stakeholder voices are heard and their rights are not overshadowed by powerful organisations, and that corporate accountability is maintained. External stakeholders offer diverse perspectives on a more efficient and sustainable manner of operating, strengthening future organisational sustainability. For instance, while retail and institutional investors put heavy emphasis on maximising returns on their investments, they also increasingly value corporate long-term strategy to sustain organisational performance.[69] A longer-term horizon increases corporate capacity to combat future changes and risks, thereby ensuring the viability of organisations in the long term.[70] Additionally, there are rising expectations of consumers and the local communities for organisations to exercise corporate social responsibility. External pressure has proven to have shaped organisational commitment to sustainable growth and a more inclusive society.[71]

As the quality of governance practices and the ESG efforts of organisations come under increasing scrutiny from stakeholders, upholding sustainable business practices is essential to ensure the flow of external capital and supporting resources.[72] Addressing stakeholder concerns in governance practices indicates the organisation's purpose of not only maximising profit, but also promoting other types of social well-being. Input from external stakeholders is important for organisations as it ensures the provision of the external support necessary to advance their ESG goals and long-term strategies.[73] This in turn provides organisations with more opportunities to differentiate themselves from their competitors and gain long-term trust, creating competitive advantage for organisations to secure financing in the long run.

Internal stakeholder engagement

Employees are critical to the fulfilment of productive goals and the development of viable purposes and strategic intentions for organisations. Corporate governance encourages mechanisms that actively involve employees. Employee representation on boards enables inclusion of employee voices in decision-making and promotes broad effectiveness by lessening the risk of groupthink.[74] Having a safe-harbour regime for

65 Michael Guo, 'Ping An Is Making Inroads Into Green Finance', World Finance, last modified 8 December 2021, www.worldfinance.com/markets/ping-an-is-making-inroads-into-green-finance

66 ibid.

67 Aimee L Franklin, *Stakeholder Engagement*, (Cham: Springer, 2020), 2–20.

68 OECD, *G20/OECD Principles of Corporate Governance,* 30 November 2015. 34–36, www.oecd-ilibrary.org/governance/g20-oecd-principles-of-corporate-governance-2015_9789264236882-en

69 Clarke, *Corporate Governance: A Survey*, 20–21.

70 International Federation of Accountants. *Understanding Value Creation*, 25 June 2020, 7–8, www.ifac.org/knowledge-gateway/preparing-future-ready-professionals/publications/understanding-value-creation

71 Dubey, Gunasekaran, Childe, Papadopoulos, Hazen, Giannakis and Roubaud, 'Examining the Effect of External Pressures and Organizational Culture on Shaping Performance Measurement Systems (PMS) for Sustainability Benchmarking: Some Empirical Findings', 65–72.

72 OECD, *G20/OECD Principles of Corporate Governance,* 30 November 2015, 34–46, www.oecd-ilibrary.org/governance/g20-oecd-principles-of-corporate-governance-2015_9789264236882-en

73 HKEX, *Making inroads into good Corporate Governance and ESG Management,* December 2020, 7, www.hkex.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Corporate-Governance-Practices/Practitioners_insights.pdf?la=en

74 OECD, *G20/OECD Principles of Corporate Governance,* 30 November 2015, 34–46, www.oecd-ilibrary.org/governance/g20-oecd-principles-of-corporate-governance-2015_9789264236882-en

employee complaints also helps reassure employees that they are being treated ethically and that their right to complain is protected, thus gaining employee trust and minimising any detrimental effects of reputational damage due to unethical practices.[75] Empowering employees to become active contributors in decision-making will result in decisions that are more consistent with employee expectations. Internal stakeholder engagement that promotes and prioritises employee well-being, and which safeguards organisational reputation, is shown to be strongly associated with talent retention.[76] Like-minded talents in organisations can provide innovative solutions to combat future organisational challenges. Active cooperation between an organisation and its employees is, therefore, in the organisation's long-term interest. Corporate governance that secures organisational trust helps retain and expand human and social capital, which is a driver for future growth.

Strategic stakeholder communication

As corporate governance and ESG matters have become the centre of attention in sustainable businesses, effective stakeholder communication is a vital ingredient in building and securing trust and reputation. Increasing transparency and disclosure of information on good governance practices facilitates ongoing dialogue between organisations and their stakeholders, enabling public understanding and evaluation of organisations.[77] Various channels of disclosure, such as social media and an organisation's web pages, are available to disseminate accurate and timely information to the public.[78] To impress stakeholders with good practices of business ethics, organisations should create their unique story to demonstrate the rationale of their governance practices. A proactive approach to consistent communication between an organisation and its stakeholders, as well as demonstrating impressive ESG practices, is important for building trust and relationships over time.

Case example: fragility of trust

The fall of energy and commodity service company Enron Corporation in 2007 highlighted the importance of the trust mechanism for future success. Enron was a robust company and built trust with different stakeholders due to acts of benevolence, technical competence and a commitment to being trustworthy.[79] However, it resorted to a low level of disclosure in times of poor performance in the hope of veiling the truth from investors. Driven by fear and the excessively high demands put on them by CEO Kenneth Lay, employees also failed to report mistakes and created a culture of dishonesty.[80] Dishonesty and mistrust between employees and management became the new norm, which eventually led to malpractice of business ethics, such as accounting fraud and corporate corruption.[81] This led to mistrust from regulators, which made the company vulnerable to litigation. Furthermore, there was widespread mistrust from all stakeholders, which led to Enron's eventual collapse. Its stock fell from US$90 per share in mid-2000, to less than US$1 per share in December 2001.[82] From this case, trust is seen to be a fragile but critical element for determining an organisation's future prospects.

Metrics measuring a better future for organisations – long-term value creation for all key stakeholders

Organisations' long-term success would manifest itself through the following performance and ESG metrics.

Key performance indicators

Key performance indicators (KPIs) provide organisations with criteria that enable the comparison between the actual results and set goals, gauging the organisation's long-term performance. Linked to organisational strategic objectives, KPIs can be viewed as markers of

75 ibid.

76 Jyotsna Bhatnagar, 'Talent Management Strategy of Employee Engagement in Indian ITES Employees: Key to Retention', *Employee Relations* 29, no. 6 (2007): 641–642.

77 G J Deon Rossouw, *'Corporate Governance and Trust in Business',* International Society of Business, Economics and Ethics Agenda (2004): 1–3, https://repository.globethics.net/bitstream/handle/20.500.12424/168959/n1Rossouw.PDF?sequence=1&isAllowed=y; HKEX, *Making inroads into good Corporate Governance and ESG Management,* December 2020, 30–31, www.hkex.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Corporate-Governance-Practices/Practitioners_insights.pdf?la=en

78 HKEX, *Making inroads into good Corporate Governance and ESG Management,* December 2020, 30, www.hkex.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Corporate-Governance-Practices/Practitioners_insights.pdf?la=en

79 Currall and Epstein, 'The Fragility of Organizational Trust: Lessons from the Rise and Fall of Enron', 198–202.

80 Christian A Conrad, *Morality and Economic Crisis – Enron, Subprime & Co.* 1st ed (Hamburg: disserta Verlag, 2010), 9–26.

81 Stephen V Arbogast, *Resisting Corporate Corruption: Cases in Practical Ethics from Enron through the Financial Crisis*, 2nd ed Hoboken, (NJ: John Wiley & Sons, Inc, 2013), 27–30.

82 Paul M Healy and Krishna G Palepu, 'The Fall of Enron', *The Journal of Economic Perspectives* 17, no. 2 (2003): 3–12.

the overall achievements and success of an organisation in various aspects, such as internal process quality and consumer satisfaction.[83] The choice of KPIs varies between different organisations, depending on their characteristics and strategic direction.

An increasing number of organisations have acknowledged the role of good governance and sustainable business practices in securing the trust of stakeholders and achieving long-term organisational success.[84] Under the growing demand of various stakeholders, organisations are now more committed to pursuing sustainable development goals and integrating all three dimensions of sustainability – that is, social, environmental and economic dimensions – into their strategy.[85] KPIs that quantify effective governance and sustainability efforts will help identify areas for improvement and determine future strategies. Continuously balancing and improving organisational performance in the three dimensions are indications of an organisation's capacity to generate long-term value for all key stakeholders.

Issuance of green, social and sustainability bonds

Sustainable and green finance investment products secure an organisation's capacity to create value in the long term and reduce market volatility related to corporate performance. The growth in green and 'labelled' bonds markets is evident in the recent decade. These bonds enable capital-raising for projects committed to environmental and social benefits. Issuing labelled bonds provides 'sustainability ambitions' in corporate strategies, leading to more investment in innovative sustainable practices of the organisation.[86]

The rapid growth in the green bond market is an indication of the matching of incentives between stakeholders and issuers. A growing number of investors, particularly fixed-income institutional investors, recognise the long-term shareholder value of sustainable business practices.[87] Issuers of green bonds can thus seize upon these financial innovations to reduce cost of capital and facilitate access to capital. Labelled bonds not only promote sustainable growth of the companies, they also help mainstream sustainability into internal operations, and create shared value that maximises the competitive value of attracting customers and employees, securing public trust in an organisation's performance in the longer run.

Tensions between corporate governance and a better future

Limited resources

Corporate governance confronts organisations with the reallocation of limited resources and prioritisation of strategic options. Fundamentally altering current business patterns, governance practices require organisations to allocate additional human resources and capital investment.[88] When organisations envisage achieving sustainability and long-term growth, they have to shift focus from short-term decision-making to the consideration of the long-term implications of current behaviours. The longer-term horizons will require supporting techniques such as scenario analysis, which will increase operational costs.[89] Additionally, disclosure guidelines and requirements in corporate governance sometimes complicate operational procedures, thereby increasing disclosure costs.[90] Despite the additional resources required to uphold good governance, many corporations still strive to comply with the dominant institutionalised expectations to secure trust and legitimacy.[91] Failing

83 Shamas-ur-Rehman Toor and Stephen O Ogunlana, 'Beyond the "Iron Triangle": Stakeholder Perception of Key Performance Indicators (KPIs) for Large-Scale Public Sector Development Projects', *International Journal of Project Management* 28, no. 3 (2010): 228–29.

84 HKEX, *Making inroads into good Corporate Governance and ESG Management,* December 2020, 30–31, www.hkex.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Corporate-Governance-Practices/Practitioners_insights.pdf?la=en; International Federation of Accountants, Understanding Value Creation, 25 June 2020, 47, www.ifac.org/knowledge-gateway/preparing-future-ready-professionals/publications/understanding-value-creation

85 Ivo Hristov and Antonio Chirico, 'The Role of Sustainability Key Performance Indicators (KPIs) in Implementing Sustainable Strategies', *Sustainability* (Basel, Switzerland) 11, no. 20 (2019): 5–9.

86 Aaron Maltais and Björn Nykvist, 'Understanding the Role of Green Bonds in Advancing Sustainability', *Journal of Sustainable Finance & Investment* 11, no. 3 (2021): 246.

87 Dan Hanson, Tom Lyons, Jennifer Bender, Bruno Bertocci and Bobby Lamy, 'Analysts' Roundtable on Integrating ESG into Investment Decision-Making.' *Journal of Applied Corporate Finance* 29, no. 2 (2017): 46–47.

88 International Federation of Accountants, *Understanding Value Creation*, 25 June 2020, 5–8, www.ifac.org/knowledge-gateway/preparing-future-ready-professionals/publications/understanding-value-creation

89 Hahn, Pinkse, Preuss and Figge, 'Tensions in Corporate Sustainability: Towards an Integrative Framework', 307.

90 Ruth V Aguilera, Igor Filatotchev, Howard Gospel and Gregory Jackson, 'An Organizational Approach to Comparative Corporate Governance: Costs, Contingencies and Complementarities', *Organization Science* (Providence, R.I.) 19, no. 3 (2008): 480–81.

91 Hahn, Pinkse, Preuss and Figge, 'Tensions in Corporate Sustainability: Towards an Integrative Framework', 308–309.

to meet increasing governance expectations due to resource constraints not only exposes organisations to more risks, but also further deteriorates public confidence, which is a vital determinant of sustainable financing. Organisations with a narrow resource base, particularly small-scale corporations and non-profit organisations, therefore face challenges to strengthen corporate governance, adversely affecting their long-term resilience and viability.

Strategy: technological innovation

Moving towards a digitised world, organisations should seek to utilise technology tools as a technical solution to reduce transition costs. With the utilisation of technological innovation, transition costs can be reduced when human capital is employed effectively and business processes become more efficient. Technology tools not only help save costs, but can also improve governance through empowering executives to better communicate with their board and leverage their expertise.[92] An online board portal is one of the communication and collaboration tools supporting internal processes and enhancing the quality of governance.[93] A board portal enables easy access to board papers, agenda creation for board meetings and more, thereby streamlining workflows and fostering board communication. It also provides functionality with integrating ESG considerations into corporate strategy and leadership behaviour, and aligning board culture and leadership with evolving governance expectations and requirements.[94] Effectively improving communication at board level and ushering in paradigm shifts in organisational priorities for sustainability are integral to good corporate governance. The adoption of technology tools provides a cost-effective channel for better governance practices.

Intertemporal choice problems

Being criticised for their short-termism, which can further induce financial instability, corporations are expected to integrate longer-term considerations into their business models. A long-term orientation for environmental protection and social equity in corporate governance creates a tension with short-term financial targets ordinarily set in corporate decision-making.[95] Companies face intertemporal choice problems, which refers to decisions in which 'the course of action that is best in the short term is not the same course of action that is best over the long run'.[96] Creating a more sustainable business will require investment in social and environmental projects that may not bring immediate short-term benefits. Investors, however, may focus on more immediate short-term returns. To justify their longer planning horizon and investment for sustainable development goals, corporations have to use various qualitative tools to safeguard investor trust in their sustained performance.[97] A longer planning horizon also involves more stakeholders in the decision-making process, requiring more time to materialise the solutions and leading to slower responses. Some corporate governance confusion may even be created. For example, institutional investors are found to desire – simultaneously and contradictorily – instant short-term returns, sustained performance and corporate social responsibility.[98] Managers may be confronted with difficult choices and make decisions that deviate from good corporate governance practices.

Strategy: sustainable bonuses

Organisational practices combining both short- and long-term outcomes can induce managers to consider long-term objectives. An example of such practices is the implementation of financial bonus systems based on short-term and long-term targets, with an emphasis on non-financial objectives. Traditional corporate bonus systems could have encouraged excessive risk-taking and cost-cutting, creating an irresistible force for short-term egotistic practices and governance failure.[99] To avoid short-term egotistic practices that often go against sustainable societal goals, corporations should reconsider corporate

92 Passageways, 'How OnBoard Board Portal Saves Money and Improves Governance', *Texas Banking* 108, no. 2 (2019): 24; www.proquest.com/docview/2187897434?accountid=14548&parentSessionId=%2B0d3W1XMt29d9FpKOtm%2BxGSlvdYsY2AKeJfbXqhw%2BeE%3D&pq-origsite=primo; Herman R J Vollebergh and Claudia Kemfert, 'The Role of Technological Change for a Sustainable Development', *Ecological Economics* 54, no. 2 (2005): 133–136.

93 John Cormican and Luke Phillips, 'Applied Corporate Governance: Board Portals – Evolution in Board Communication', *Keeping Good Companies* 63, no. 4 (2011): 207; Passageways, 'How OnBoard Board Portal Saves Money and Improves Governance', 24, www.proquest.com/docview/2187897434?accountid=14548&parentSessionId=%2B0d3W1XMt29d9FpKOtm%2BxGSlvdYsY2AKeJfbXqhw%2BeE%3D&pq-origsite=primo

94 HKEX, *Making inroads into good Corporate Governance and ESG Management*, December 2020, 27–28, www.hkex.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Corporate-Governance-Practices/Practitioners_insights.pdf?la=en

95 Hahn, Pinkse, Preuss and Figge, 'Tensions in Corporate Sustainability: Towards an Integrative Framework', 306–307.

96 Kevin J Laverty, 'Economic "short-termism": the debate, the unresolved issues and the implications for management practice and research', *The Academy of Management Review* 21, no. 3 (1996): 828.

97 Hahn, Pinkse, Preuss and Figge, 'Tensions in Corporate Sustainability: Towards an Integrative Framework', 307.

98 Clarke, *Corporate Governance: A Survey*, 20.

99 Jay Lorsch and Rakesh Khurana, 'The Pay Problem: Time for a New Paradigm for Executive Compensation', *Harvard Magazine* (May 2010), 30–35.

incentives. A number of multinational corporations have recently added long-term social and environmental dimensions to their bonus systems.[100] Incentive plans and compensation packages with a stronger focus on non-financial objectives will still consider short-term earnings important, but will add complexity to managerial objectives by highlighting the need to meet demands from stakeholders.[101] Despite the inherent contradictions between short-term financial objectives and long-term sustainability goals, managers are persuaded to acknowledge the need to complement short-term financial outcomes with long-term sustainable goals.

Strategy: alternative corporate governance structures

Organisations can implement corporate governance structures with a greater tolerance for not meeting short-term financial objectives. Corporate governance structures, resulting from company characteristics and identity, play a role in creating an enabling environment to pursue short-term and long-term objectives. For instance, hybrid organisations that blur for-profit and non-profit boundaries can better balance short- and long-term objectives.[102] The distribution of rights among different stakeholders, the formal procedures involved in decision-making and the positions of stakeholders in the governance system will all influence corporate policies, final decisions and, eventually, corporate ability to effect positive environmental and social change.[103] To safeguard their long-term mission, organisations can try to attract stakeholders that support and work for their long-term horizons. For example, corporations can use internal promotions for key managerial positions and hire employees with little work experience so as to ingrain the long-term objectives into them through training.[104] Regular training can help raise the awareness of the leadership to the importance of balancing short- and long-term objectives, and can build their capacity to create governance structures that commit to the long-term objectives of the organisation.

Conclusion

The role of corporate governance in future organisational success has been increasingly emphasised of late. Through prudent risk management, strong trust reinforcement and efficient resource allocation, executives can navigate their way towards success in a sustainable manner. These measures increase the corporation's organisational resilience, reputation and overall profitability in the long term. Checks and balances are also in place to monitor executive performance and compensation, as well as to ensure that different stakeholder interests are taken into consideration accordingly. It is imperative to do so as stakeholders may have conflicting interests, thus there is a need for prudent management to resolve tensions between different voices. Ultimately, the corporation's long-term success would manifest itself in KPIs and green bond issuance. As a result, there is empirical evidence that shows that corporate governance affects the entire corporation deeply, from top to bottom, as well as from present to future.

100 Ans Kolk and Paolo Perego, 'Sustainable Bonuses: Sign of Corporate Responsibility or Window Dressing?' *Journal of Business Ethics* 119, no. 1 (2014): 2.

101 Kolk and Perego, 'Sustainable Bonuses: Sign of Corporate Responsibility or Window Dressing?',1–4.

102 Nardia Haigh and Andrew J Hoffman, 'Hybrid Organizations: The Next Chapter of Sustainable Business', *Organizational Dynamics* 41, no. 2 (2012): 126–127.

103 Frank J de Graaf and Cor A J Herkströter, 'How Corporate Social Performance Is Institutionalised within the Governance Structure', *Journal of Business Ethics* 74, no. 2 (2007): 179.

104 Julie Battilana and Silvia Dorado, 'Building Sustainable Hybrid Organizations: The Case of Commercial Microfinance Organizations', *The Academy of Management Journal* 53, no. 6 (2010): 1430.

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First runner up

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Introduction

Governance is one of the fundamental elements of a corporation. It is surely worth exploring whether better governance leads to a better future for a company or not, and it is high time we probed into the reasons behind this. In this paper, we will first discuss what good governance is and a better future will be defined. With reference to different cases where companies have performed well due to good governance, we prove how good governance helps in achieving different organisational objectives, which is undoubtedly beneficial to a company's future. Lastly, we discuss the challenges that companies may encounter when implementing good governance and provide ideas on how these can be solved to ensure a promising future.

Definition of good governance

Before diving into the topic, it is important to define what is good governance for a corporation. Although the principles of good governance can be different from company to company, characteristics including transparency, consensus building, accountability, and inclusion and corporate citizenship are the major codes for good governance,[1] and they are explained as follows.

Transparency

Transparency is the development of open business processes and the ability to efficiently track all of the company's activities. Another aspect of transparency is the provision of accessible, clear financial reports and

1 Jayne Thompson, 'Corporate Governance Issues & Challenges', *Bizfluent*, 31 July 2018, https://bizfluent.com/info-7863014-corporate-governance-issues-challenges.html

other information to anybody who could be impacted by the company's corporate governance rules. In this way, stakeholders will be able to comprehend the company's strategies and follow its financial success.

Consensus building

Regarding consensus building, organisations should undoubtedly have continuing discussions with the various stakeholder categories in order to reach an agreement on how they can best meet everyone's demands in a sustainable manner.

Accountability

Accountability is an indispensable part of consensus-building. The individuals whose decisions affect the company's operations must be held accountable. The company's code of conduct should clearly state who is responsible for what.

Inclusion and corporate citizenship

In terms of inclusion and corporate citizenship, an organisation's efforts with regard to inclusion is a significant differentiator of achievement among leading diversity practitioners, and it is obvious that companies wouldn't have improved on diversity without engaging in inclusion.[2] Also, corporate citizenship sends a strong statement about the company's contribution to the world.

In this paper, we will examine how a company's policy or strategy matches the above-mentioned characteristics of good governance.

Definition of a better future for organisations

Our definition of a better future is that organisations achieve their organisational objectives to some extent, where the results are observable and verifiable from companies' reports and statistics. Most organisations set short-term, mid-term and long-term objectives, and their members work together to reach them. These objectives are known as organisational objectives. Organisational objectives aid in establishing goals so that all corporate-wide efforts point in the same direction. They are always the results that organisations wish to accomplish.[3] The most common organisational objectives that we can see in society would be maximising long-term profit margins, improving sustainability, improving brand awareness and increasing productivity.[4] Considering these are the ultimate goals of the companies, we will define the result of achieving certain organisational objectives as the act of building a better future for organisations.

To prove the objectives are achieved, we use measurable and quantifiable methods to compare the business outcomes before and after good governance is implemented. We investigate the different organisational objectives of different companies and analyse whether the strategy of implementing good governance helps in reaching these objectives. We look at companies' annual reports, news announcements and literature reviews to examine the impacts of their management systems, policies and regulations by comparing relevant statistics. And finally, we offer our conclusions on whether good governance will bring a better future for organisations.

Good governance practices and a better future

A qualified executive board

Having qualified executive board members matches two of the characteristics of good corporate governance, namely high transparency and good consensus. Companies should always appoint directors on boards who are knowledgeable and skilled in areas related to the business, as well as qualified and competent, as they are the ones who make important decisions and who design strategies for the company's development. They should also possess high moral standards, diversified experiences, a range of skills and the time necessary to devote to their responsibilities. In this case, reviewing regularly or even setting clear regulations about the supervision of the board is overall a good way to manage the company, in order to evaluate the performance of the directors and determine if they

2 Sundiatu Dixon-Fyle et al, 'Diversity Wins: How Inclusion Matters', *McKinsey & Company*, 19 May 2020, www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters, 32.

3 'Organizational Objectives: Definition & Examples', Study.com, 8 August 2015, http://study.com/academy/lesson/organizational-objectives-definition-examples-quiz.html

4 Karishma Daswani, 'Types of Organizational goals and their importance', Study.com, accessed 21 April 2022, https://study.com/learn/lesson/organizational-goals-types-purpose-examples.html

are carrying out their responsibilities to maximise companies' profits. This helps to develop a transparent practice for the business, as all the stakeholders can help in regulating the key management and hence business activities easily with the supervision policies. Since having high transparency and a well-built consensus are the fundamental objectives of corporate governance, building a strong organisational structure is indeed the first step.

ITE Group plc, a listed company on the London Stock Exchange (LSE), would be a perfect example to illustrate this point. ITE Group has been using a performance-based income strategy for their top key management executives in order to boost their working incentives. At the same time, the Group has been supervising its management executives to a greater extent, to ensure the company's code of conduct is rigorously adhered to. This has further facilitated the implementation and execution of its Transformation and Growth (TAG) strategy,[5] in which the executives aim to transform and improve the company's organisational structure, policies and management processes to drive organic growth and create a scalable platform.[6] The Group has undergone a fundamental transformation from a portfolio of decentralised, emerging market events into a worldwide organisation that is committed to producing events that are market leaders, wherever they may be located. With the help of the TAG strategy, ITE Group have been able to create a dynamic, scalable platform, develop systems and procedures, complete the acquisitions of Ascential Events and Mining Indaba, and close transactions that were less profitable. With an emphasis on market-leading events, this considerable development has produced a stronger and more varied portfolio.

The outcome of the TAG strategy can be clearly seen in the company core event, in which it had a 5% growth in like-for-like sales after three years of difficult trading. In addition, it has boosted a 15% growth in the like-for-like top line. The success of the TAG strategy has further maximised the Group's growth and development capacity. From the announcement of the programme in May 2017 up to May 2019, it had a 7% growth in headline profit before tax for the period, with increased margins on a like-for-like basis.[7] Moreover, the programme reviewed the core events and closed 24 less profitable events to maximise its productivity and profitability, while developing projects that can earn profits sustainably. The future outlook of the company is also very strong and their like-for-like increase in revenue has given them bright visibility.

Maximising the company's profits and developing a sustainable way to earn revenue are always the most important long-term organisational objectives. Companies can assess their position in relation to competitors in the industry by using financial and sales objectives. These goals frequently centre on how a business may outperform its rivals in terms of market share, product quality and brand awareness. From the above example, we can see that creating an improvement in the organisational structure, hence policymaking and productivity, will effectively boost the company's profitability and sales revenue. The rapid increase in profit will then help achieve the company's long-term financial goals, increasing brand recognition and market share among competitors. Given the definition of a better future for organisations as being to improve the organisational objectives, our above example and elaborations have proven that good corporate governance will bring a better future for the companies.

A system of checks and balances

With the development of capital markets and the advance in financial access over the past century, there has been a separation between ownership and management in organisations, especially in public companies. Shareholders own the companies, while managers operate the companies. However, the issue of aligning stakeholders' interests arises. The conflicts of interest between shareholders, managers and creditors can induce significant real costs.[8] This is known as the agency problem. To deal with the problem and to improve investor confidence, good corporate governance is essential.

A system of checks and balances is indispensable for good corporate governance. This ensures the balance

5 Lakshna Rathod, 'Good Corporate Governance Practices and Examples', *Diligent*, 4 April 2019, www.diligent.com/en-gb/blog/good-corporate-governance-practices-examples/

6 Nicola Macdonald, 'Growth for ITE Group "after three years of difficult trading"', *Exhibition News*, 28 November 2017, https://exhibitionnews.uk/ite-group-releases-preliminary-results/

7 Nicola Macdonald, 'ITE Group reports rise in revenues and profits', *Exhibition News*, 15 May 2019, https://exhibitionnews.uk/ite-group-reports-rise-in-revenues-and-profits/

8 Magdalena Jerzemowska, 'The Main Agency Problems and Their Consequences', *Acta Oeconomica Pragensia* 14, no 3 (2006): 9-17.

of power and the benefits of every stakeholder[9] by achieving a high level of transparency and accountability. In particular, the system mostly includes four key components, namely (1) an independent and competent board of directors, (2) an independent and competent external auditor, (3) objective and competent legal counsel, and (4) objective and competent financial advisors and investment bankers.[10] These key components oversee the companies' management on behalf of stakeholders, provide investors with accurate information, and ensure proper policies, rules and practices to align management with stakeholders' long-term interests.

De La Rue plc, a British listed company that produces banknotes and secure documents, and which was the winner of the World Finance Corporate Governance Awards 2018, is a good example to illustrate the above four components. The company has an effective and efficient board of directors, with an objective to bring a sustainable and long-term return to the shareholders. To better understand shareholders' views and concerns, the board holds annual general meetings to listen and respond to any questions raised by the investors. To actively supervise the operation of the company, each member of the board is assigned clear responsibilities, and they take part in regular meetings to discuss and make decisions on a wide range of matters, from group strategy and objectives to approval of annual and interim reports. Furthermore, board members are responsible for the six board committees, which have been established for different types of issue. For instance, the audit committee and the risk committee work closely together to monitor the company's financial report, internal control and risk management frameworks, while the ethics committee upholds the company's commitment to business ethics.[11]

As corporate governance is closely related to stakeholders' interests, shareholders and creditors pay close attention to companies' levels of corporate governance. From the shareholders' perspective, corporate governance has become a crucial factor for making investment decisions and better corporate governance significantly boosts investor confidence.[12] This is supported by surveys conducted by McKinsey & Company and the International Finance Corporation. The key findings of the surveys are that (1) a large proportion of investors consider corporate governance is as important as financial performance, (2) they avoid investing in companies with poor corporate governance, and (3) they are more willing to pay a premium for firms with better corporate governance standards.[13] Valuations such as market prices and price-to-book ratios for better-governed companies are observably higher than the industry average, according to several studies.[14] From the creditors' perspective, good corporate governance boosts creditors' confidence by lowering their risks. Corporate governance is strongly associated with the default risk borne by bondholders. Poor governance with self-interested and shareholder-influenced managerial behaviours can lead to lower, more fluctuating expected cash flows.[15] Conversely, good governance with independent management and a balance of stakeholders' interests maintains higher and more stable expected cash flows. This results in lower creditors' default risk, higher creditors' confidence and, therefore, receiving a higher credit rating from rating agencies. As a result, good corporate governance helps achieve the general objective of having a stable group of investors and an abundant source of capital.

In real life, failures of corporate governance and the subsequent impacts on investor confidence have highlighted the importance of good corporate governance. In the stock market, two examples are scandals from a leading integrated healthcare delivery service provider and an Indian multinational bank.[16] The former scandal emerged as four board directors were voted out due to conflicts in major decisions. The latter scandal involved the collusion of employees against the bank's interests due to the lack of checks and balances.

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9 Nicholas J Price, 'Why Corporate Governance Is Important to Investors', *Diligent*, 19 August 2019, www.diligent.com/en-au/insights/shareholder-investor/why-corporate-governance-important-investors/

10 Nabil Alnaser, Osama Samih Shaban and Ziad Al-Zubi, 'The Effect of Effective Corporate Governance Structure in Improving Investors' Confidence in the Public Financial Information', *International Journal of Academic Research in Business and Social Sciences* 4, no 4 (January 2014): 556.

11 De La Rue plc, 'Annual Report', *De La Rue*, 2022.

12 Xiaolu Li, Jieji Lai and Jian Tang, 'Study of the influence of corporate governance level on investors' confidence', *Canadian Social Science* 12, no 5 (2016): 8-16.; Vikramaditya Khanna, and Roman Zyla, 'Survey Says: Corporate Governance Matters to Investors in Emerging Market Companies', *International Finance Corporation*, 2017.

13 Khanna and Zyla, 'Survey Says: Corporate Governance Matters to Investors in Emerging Market Companies'; Paul Coombes and Mark Watson, 'Global Investor Opinion Survey', *McKinsey Quarterly*, 2002.

14 Leora Klapper and Inessa Love, 'Corporate Governance, Investor Protection and Performance in Emerging Markets', *World Bank Policy Research Working Paper 2818*, April 2002; Amar Gill, 'CLSA Watch: Corporate Governance in the Emerging Markets', *CLSA CG Watch*, April 2001.

15 Hollis Ashbaugh-Skaife, Daniel W Collins and Ryan LaFond, 'The Effects of Corporate Governance on Firms' Credit Ratings', *Journal of Accounting and Economics* 42, no 1-2 (2006): 203-243.

16 Grant Thornton, 'Rebuilding investors' confidence through effective governance', *Grant Thornton*, August 2018.

Both scandals drastically lowered investor confidence and their market valuations experienced multi-year lows during the periods. In the credit market, a recent example is the downgrading of the credit ratings for Credit Suisse after scandals revealed the company's weakness in risk governance.[17] Fitch Ratings Inc downgraded its long-term issuer default rating from A- to BBB+, while S&P Global Ratings downgraded its credit rating from BBB+ to BBB.

Accountability

Accountability is one of the essential aspects of corporate governance. Without a reliable and reinforceable accountability system, employees within a company cannot be held responsible for the consequences of their work. In a macro view, corporations would not be liable for their actions in society without the presence of a credible accountability system. To discuss how an accountability system could positively impact an organisation's future, two aspects, inside and outside the organisation, will be covered in this context.

Accountability systems serve to prompt and encourage people to keep their promises to each other. Inside an organisation, an accountability system is a clear set of guidelines and regulations that all employees ought to follow. They are responsible for their actions, behaviour, performance and decisions.[18] For instance, Apple Inc, the technology giant that manufactures one of the world's most popular smartphones and electronic gadgets, adopts an accountability system called Directly Responsible Individual (DRI), meaning that a specific task or job is assigned explicitly to one individual only.[19] When issues arise, the ball of responsibility would not be tossed around. Rather, management can easily identify the staff member who is responsible for the issue and conduct corrective actions. This not only alleviates the time to argue and find out who should be held accountable, but it also increases employees' self-awareness and ownership of their allocated tasks. It is always a wiser solution to prevent problems, rather than solving problems after they arise. When organisations have an unclouded framework for an accountability system, workers feel a higher sense of ownership and give their best to do their part. When people feel responsible for a particular assignment, they are more self-motivated to monitor the overall progress, challenges and outcome of their tasks. That is because they can take credit for the success of their tasks, especially when working as a team. Research has shown that an accountability system encourages people to develop positive and cooperative relationships with one another, and has a direct relationship with achieving high performance within an organisation.[20] On the other hand, without the system, problems and issues will be left on the table unsolved when no one is taking credit for it, simply because employees have no idea whether or not those issues are related to them. When the unsolved issues stack up and no one is willing to take responsibility for them, it drags down productivity and efficiency, which in turn negatively affects the organisation's performance and future development.

Looking further beyond the workplace, a society that is made up of numerous kinds of organisation functions properly with the presence of an accountability system. In recent years, the concept of corporate social responsibility (CSR) has emerged and this concept greatly changed how organisations do business. CSR can be defined as a self-regulating business model that helps a company be socially accountable to itself, its stakeholders and the public.[21] Companies are more aware of the impact they have on society – economically, environmentally and socially – by practising CSR. It opens up the idea that making a profit is not the sole goal of a company, especially for multinational corporations like Starbucks Corporation, The Coca-Cola Company and Ben & Jerry's Homemade Holdings Inc. These companies are held accountable for their actions and need to give back to society, not just make money. In times when companies might have degraded the environment in their business operations, CSR acts as an obligation for them to conduct corrective actions and play their part in protecting the environment. For example, Coca-Cola, one of the largest soft drink manufacturers in the world, has set goals to use 100% renewable energy in its manufacturing process by 2026 and to make its

17 Reuters, 'Credit Suisse downgraded by Fitch, move follows S&P', *Reuters*, 19 May 2022, www.reuters.com/business/finance/credit-suisse-downgraded-by-fitch-move-follows-sp-2022-05-19/

18 Hiba Amin, 'How to make accountability a core part of your workplace culture', *Hypercontext*, 2 Feb 2022.

19 Gloria Lin, 'How Well Does Apple's Directly Responsible Individual (DRI) Model Work In Practice?', *Forbes*, 2 October 2012, www.forbes.com/sites/quora/2012/10/02/how-well-does-apples-directly-responsible-individual-dri-model-work-in-practice/?sh=60080e2e194c

20 Patricia M Fandt, 'The Relationship of Accountability and Interdependent Behavior to Enhancing Team Consequences', *University of Central Florida*, September 1991.

21 Jason Fernando, 'Corporate Social Responsibility', *Investopidia*, 27 May 2022.

packaging 100% recyclable by 2025.[22] Studies have shown that implementing CSR can increase the value of a company's products and services to its clients, therefore gaining a competitive advantage among its peers. It also enhances customer loyalty and has a positive effect on retaining customers.[23] As a result, when corporations are held accountable for their actions and fulfil their CSR goals, it helps to sustain the company's future development and business growth.

Diversity

Diversity in the workplace reflects the characteristics of good governance, namely inclusion and corporate citizenship, making diversity one of the paramount compositions of good governance. By definition, diversity refers to any compositional differences among people within a work unit, including gender, race, age, educational background and functional background.[24] Companies that are well-managed and which strive to promote diversity within the firm can reflect their process of good governance and, because of that, the companies themselves can reap a myriad of benefits. To illustrate, SAP SE, one of the most diverse and inclusive software companies in the world, can be used as an example. The firm has proactively put a lot of effort into promoting diversity. Concerning its external practice, the company targets creative, smart and talented people when attracting talent from all backgrounds. For example, the #WomenWhoRock event helps the company to recruit innovative women.[25] It even reformed its HR processes to help candidates with autism overcome the obstacles that they often face during an interview, through the SAP Autism at Work Program, enabling the firm to hire for autism inclusion.[26] Regarding its internal practice, SAP improves workplace accommodations by implementing disability-friendly facilities, and widened doorways and seats, so as to enhance accessibility.[27] Furthermore, the company places emphasis on the personal development of employees. Apart from holding workshops for managers and juniors, SAP makes use of mentoring tools to allow and encourage inclusive mentoring across five generations of employees.[28] In light of this situation, it can be concluded that SAP did great work to make both forms of diversity part of its governance.

From the SAP firm level, promoting diversity in the business recruitment stage could broaden the range to many other cultures and capture more possible candidates that wouldn't have applied for the jobs otherwise. For instance, highly capable neurodiverse people are often underemployed. When SAP began its Autism at Work Program, the number of applicants surged with improved human capital and labour quality, including people with master's degrees in electrical engineering, biostatistics and economic statistics, and some had dual degrees and patents, while many had earned very high grades and graduated with honours or other distinctions.[29] It has been found that neurodiverse employees' participation in teams generated significant cost minimisation. One such employee helped develop a technical fix worth an estimated US$40 million. Moreover, diversity is a kind of corporate social responsibility that favours brand image, and helps promote business networking and relationship management. For a case in point, SAP managers have entered relationships with 'social partners' – government or non-profit organisations – that are committed to helping people with disabilities obtain jobs. SAP has taken the opportunity to work with California's Department of Rehabilitation, Pennsylvania's Office of Vocational Rehabilitation, the US non-profits EXPANDability, the Arc and overseas agencies such as EnAble India.[30]

From the SAP team level, the evidence indicates that people from diverse backgrounds tend to improve group thinking by focusing more on facts. In a series of experiments, participants were placed in either ethnically diverse or homogenous teams. The researchers found that the diverse teams were 58% more likely to price stocks correctly, whereas those in homogenous groups were more prone to pricing

22 '2023 Sustainable Development Strategy', *Swire Coca-Cola*, accessed 2 July 2022, www.swirecocacola.com/en/Sustainability.html#:~:text=we%20call%20home.-,We%20care%20for%20our%20Planet%20and%20we%20are%20committed%20to,Decarbonising%20our%20value%20chain

23 Juan Carlos Fandos-Roig, Javier Sánchez-García, Sandra Tena-Monferrer and Luis José Callarisa-Fiol, 'Does CSR Help to Retain Customers in a Service Company?', *MDPI*, 31 December 2020.

24 'Diversity Definition & Meaning', Merriam-Webster, accessed 9 July 2022, www.merriam-webster.com/dictionary/diversity

25 'Diversity & Inclusion', SAP, accessed 9 July 2022, www.sap.com/about/company/diversity.html

26 SAP, 'Diversity & Inclusion'.

27 Ibid.

28 Ibid.

29 'Autism at Work Program: SAP Careers', SAP, accessed 9 July 2022, www.sap.com/about/careers/your-career/autism-at-work-program.html

30 'SAP Integrated Report 2021', SAP, accessed 9 July 2022, www.sap.com/integrated-reports/2021/en.html

errors.[31] This shows that diverse teams are more likely to re-examine facts and remain objective. They may also encourage greater scrutiny of each member's actions. By embracing diversity, employees become more aware of their own potential biases, helping the team make fewer errors in the decision-making process. Moreover, diversity can inspire creativity at the task level, as demonstrated by one Harvard-funded study which created leadership teams that included an even mixture of inherent and acquired diversity.[32] This two-dimensional diversity was shown to encourage free-associative thinking and innovation in a team. Also, firms that utilise their employees' unique backgrounds to venture into a broader range of services are better prepared for the changes in the market. A diverse team of personnel is more likely to offer different perspectives to help a company adapt to the challenges ahead. For creativity, a diverse workforce can simulate the process of divergent thinking, which is a spontaneous, free-flowing process. Ideas are generated by breaking out of one's normal thinking pattern. If every employee has a thought process unique to their own experiences, then the ideas generated will be broad and diverse, pushing the company to a higher level by having more innovative executions or products than other competitors.

Recruiting more talented employees and enhancing the creativity of the team has always been part of SAP's business objectives. From the above arguments, it is apparent that the diversity programme held by SAP helps the firm to attract more disabled yet smart and diligent people to work for the company. Also, the inclusive culture fostered by SAP makes employees feel more valued and included. Not only does it nurture innovative and creative ideas, but it also shows that SAP has committed to corporate citizenship.

Challenges and mitigation measures

Conflicts of interest

One of the main challenges in achieving good governance is the conflict of interest among board members. A conflict of interest occurs when the duty of a board member or an executive member clashes with their personal gains. Voting decisions could be affiliated with personal financial interests, family members' financial interests or even the desire for the personal advancement of a board member. Such interests could potentially distort decision-making, eventually making decisions that do not provide the best future for the corporation. Recently in Israel, Ruth Ralbag, the former CEO of the country's largest health maintenance organisations (HMO), Clalit Health Services, resigned from her post as she was accused of possible fraud and a breach of trust from a concealed conflict of interest.[33] Comptrollers found that Ralbag intervened on behalf of a consulting firm that employs her daughter, which increased the chance of obtaining budgetary funds from the HMO, in which her daughter could potentially benefit from the profits. Besides, at the time of her position as CEO in Clalit, she overlapped with another job at Jerusalem's Shaare Zedek Medical Center. This acts as a perfect example of a potential conflict of interest. Whether her position in the medical centre affected her decision-making as the CEO in Clalit is doubted. That being said, it is crucial for directors and board members to disclose their interests honestly and to have regular updates.

However, issues get complicated as a director's duty tends to diverge from one company to another, and between different countries and regions. It is difficult to determine the underlying stakeholders that have a beneficiary relationship with the director. As a result, a regular and effective internal control measure has to be adopted. Take the Industrial and Commercial Bank of China Ltd (ICBC)'s supervisory board as an example. This supervises and monitors the financial activity, risk management and risk control of the bank, as well as the fulfilment of duties of the board members of ICBC.[34] By attending board meetings, it monitors the performance of directors and other board members, as well as their auditing processes and decision-making, which affects the company's short-term and long-term development. As a result, an effective way to prevent a conflict of interest in the board is to set up a supervisory board that keeps track of the overall performance and related parties of the board members, and which requires them to disclose any potential beneficiaries to relevant stakeholders.

31 Aparna Joshi and Hyuntak Roh, 'The Role of Context in Work Team Diversity Research: A Meta-Analytic Review', *The Academy of Management Journal* 52, no 3 (2009): 599-627, https://doi.org/10.5465/amj.2009.41331491

32 Robert D Austin and Gary P Pisano, 'Neurodiversity as a Competitive Advantage', *Harvard Business Review: Managing People*, May 2017.

33 Toi Staff, 'Leading HMO head resigned amid suspicions of fraud, conflict of interest – report', *The Times of Israel*, 3 July 2022, www.timesofisrael.com/leading-hmo-head-resigned-amid-suspicions-of-fraud-conflict-of-interest-report/

34 'Board of supervisors', Industrial and Commercial Bank of China, accessed 3 July 2022, www.icbc.com.cn/ICBCLtd/Corporate%20Governance/Board%20of%20Supervisors/Board%20of%20Supervisors

Short-termism

Another main challenge in achieving good corporate governance is the problem of short-termism, which means 'an excessive focus on short-term results at the expense of long-term interests'.[35] In this context, short-termism refers to the managerial decisions that focus on short-term performance, but sacrifice more profitable long-term value creation. Short-termism happens as shareholders simply invest in a portfolio to spread their risk, while the board of directors commit human capital and a disproportionate share of wealth to the company.[36] However, their commitments do not guarantee investors' confidence, nor their future positions on the board. The board of directors would like to make immediate, but lower-value, decisions under the short-term performance pressures from investors in order to retain shareholders as the source of capital and, meanwhile, ensure their place in the future. It might seem simple for managers to realise the solution, making decisions with the focus back on long-term value, but, in reality, short-termism remains a tremendously common issue. A study interviewed 400 CFOs of US large public companies and revealed that around 80% of them would meet the quarterly earnings expectations by giving up firms' long-term value.[37]

Overcoming the challenge of short-termism brings significant benefits to companies. Research by McKinsey & Company showed that focusing on long-term performance results in significantly higher average revenue and earnings growth, higher total return to shareholders and adding more jobs to society. The research further provided four suggestions to combat short-termism. They are (1) focusing on long-term value even at the expense of short-term earnings, (2) actively engaging in investor communications, (3) stopping meeting earnings targets with artificial actions, and (4) rethinking the purpose of quarterly calls.[38] All four suggestions have two main objectives. The first objective is shifting decisions to favour long-term performance instead of short-term interests. This is to gain the above-mentioned benefits. The second objective is to eliminate information asymmetry between investors and the board. Adopting a future focus strategy, like making decisions based on a long-term database, deepening cross-functional ties and developing a new business mode with sustainable investing, will weaken short-termism and bring long-term benefits to all parties.[39]

Counterargument

Compliance focus

As corporate governance has gained greater attention in recent decades, governments and financial market regulatory institutions have published corporate governance frameworks and requirements. Helping organisations to set up a well-established framework will help increase companies' transparency and accountability, as this can train their stakeholders to fully understand their duties, responsibilities and restrictions, to prevent any breaching or violation of external regulations.

While the target is to reduce the chances of mismanagement and protect stakeholders, the practices of corporate governance are potentially distracted and hindered by these frameworks, losing focus on the main objective of bringing long-term value for companies. Being preoccupied with governance guidelines leads to limitations of managers' discretion and freedom regarding the operation of companies. One example is the US control frameworks. Professionals considered the frameworks 'designed to limit management discretion and decision scope by their nature'. This restriction on the scope of management causes ineffective responses to the dynamic and turbulent business environment. A considerable amount of time is also spent on compliance, with the external expectations of corporate governance instead of company performance. In addition, the benefits of implementing a prescriptive level of corporate governance are uncertain. A study of the governance model suggested by the UK Cadbury Committee found that companies with complete compliance with the model do not evidently exhibit better performance than those with partial or no compliance. Company performance and competitiveness can even be negatively affected due to the impeded

35 'Short-Termism', CFA Institute, accessed 2 July 2022, www.cfainstitute.org/en/advocacy/issues/short-termism#sort=%40pubbrowsedate%20descending

36 D Daniel Keum, 'Innovation, Short-Termism, and the Cost of Strong Corporate Governance', *Strategic Management Journal* 42, no 1 (June 2020): 3-29.

37 Roger L Martin, 'Yes, Short-Termism Really Is a Problem', *Harvard Business Review*, 9 October 2015, https://hbr.org/2015/10/yes-short-termism-really-is-a-problem

38 Tim Koller, James Manyika and Sree Ramaswamy, 'The case against corporate short termism', *McKinsey Global Institute*, 4 August 2017, www.mckinsey.com/mgi/overview/in-the-news/the-case-against-corporate-short-termism

39 Christine Moorman, and Lauren Kirby, 'How Marketers Can Overcome Short-Termism', *Harvard Business Review*, 21 November 2019, https://hbr.org/2019/11/how-marketers-can-overcome-short-termism

role of management. A lower level of innovation and productivity, as well as significant additional costs, are some of the observed negative impacts.[40]

However, we cannot conclude that guidelines and principles recommended by governments and regulatory bodies are useless, or that good corporate governance does not help in bringing a better future for organisations. Since different organisations have different business modes, operation systems and stakeholders, they should not use a 'check-the-box' approach to implement corporate governance. Instead, they should have a full understanding of the framework in advance, and analyse which regulations would suit their organisations in operations, supervision and internal regulations. The challenge to companies is to find their own approaches that are the most suitable and beneficial to themselves and their stakeholders. According to studies, companies should always first compare the requirements of that framework to what the organisation presently accomplishes. The compliance programme's weaknesses will then be revealed by this 'gap analysis', and companies can take measures to address them one at a time.[41]

By amending their own frameworks, companies can maximise the profits of their stakeholders. The amendments could add any regulations that are lacking, such as forbidding the sending of the company's internal documents to any external email address, and could also remove any unnecessary or adverse regulations, such as extra preclearance of market products. In this way, companies can achieve their organisational objectives more efficiently and a better future for organisations will certainly be brought.

Conclusion

In conclusion, this paper has gathered mixed evidence of how good governance leads to a better future for a corporation through diversity and inclusion, effective organisational structure, accountability and reassured investor confidence. It does appear that there are many benefits for companies practising good governance in the long run, however, this paper has also highlighted the many difficulties and challenges for companies when implementing good governance. Therefore, further research on how to overcome the challenges of practising good governance is needed.

40 Chris Durden and Richard Jan Pech. 'The increasing cost of corporate governance: decision speed-bumps for managers'. *Corporate Governance: The International Journal of Business in Society* 6, no 1 (January 2006): 84-95.

41 Matt Kelly, 'What is a Compliance Framework? The Definitive Guide', accessed 23 October 2020, www.ganintegrity.com/blog/what-is-a-compliance-framework

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Introduction

The term 'corporate governance' entered common parlance in the 1970s in the US amidst the so-called 'golden age of capitalism', which saw rapid economic growth and corporate prosperity following the end of World War II.[1] During this era, corporations were fixated on maximising profits and corporations often overlooked the importance of internal governance. Directors and shareholders were 'known for their indifference to everything about the companies they own except dividends and the approximate price of the stock'.[2]

The importance of 'corporate governance' was brought to the forefront of the business community in the US in 1974, when the Federal Securities and Exchange Commission commenced proceedings against Penn Central for allegedly misrepresenting the company's financial condition and failing to discover a multitude of wrongdoings perpetrated by its executives.[3] This marked the start of a new era, where managerial accountability is taken into account for the purposes of regulatory remit.[4]

However, the term 'corporate governance' was still mostly unknown by the international community until the 1990s.[5] The 1990s is also known as the era of economic pessimism, which saw a widespread recession

1 Brian R. Cheffins, "The History of Corporate Governance", *European Corporate Governance Institute Paper Series in Law*, (January 2012).

2 Livingston, J.A. (1958). The American Stockholder. Philadelphia: J.B. Lippincott Company.

3 Schwartz, D.J. (1976). "Penn Central: A Case Study of Outside Director Responsibility Under Federal Securities Law." *UMKC Law Review*, 45: 394-421.

4 Brian R. Cheffins, "The History of Corporate Governance", *European Corporate Governance Institute Paper Series in Law*, (January 2012).

5 Philip Armstrong, "Why Does Corporate Governance Matter: Workshop on Corporate Governance Reporting", *International Finance Corporation: World Bank Group* (June 2014).

in much of North America and Western Europe, as well as the occurrence of successive financial crises around the world, including the 1997 East Asian financial crisis and the 1998 Russian financial crisis.[6] This period of economic turmoil heightened public and governmental interest in implementing regulatory interventions regarding internal governance, which ultimately culminated in the creation of the Organisation for Economic Co-operation and Development (OECD)'s Principles of Corporate Governance.[7] To this day, the OECD CG principles still serve as the gold standard for governments and organisations around the world.[8]

What Is Corporate Governance?

Initially, the chief aim of corporate governance was to maximise returns for the investors, rather than ensuring the quality of internal governance. This is reflected in Andrei Shleifer and Robert W Vishny's paper titled 'A Survey of Corporate Governance', which defines corporate governance as 'the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment'.[9]

However, the modern definition of corporate governance – especially after the occurrence of successive financial crises around the world – gradually shifted towards ensuring the high quality of internal governance of a company. For instance, the OECD defined corporate governance as 'a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.'[10]

In other words, modern corporate governance is no longer confined by the singular objective of maximising investment returns. In addition to profitability, it also aims to ensure the basis for an effective, transparent and fair corporate governance framework that is consistent with the rule of law, while striking a balance between the economic interests of the shareholders and stakeholders with societal considerations.

Why Does Corporate Governance Matter?

The importance of corporate governance is succinctly summarised by John Plender, a senior columnist for the Financial Times. He stated that 'corporate governance is at the heart of what goes right and wrong in business'.[11] Failing to implement an effective corporate governance model can negatively impact a company in a plethora of ways, ranging from financial misconduct to discriminatory corporate culture and the loss of consumer trust. The following are a few examples of modern corporate governance failures.

In 2015, five of the world's most renowned banks – Citicorp, JP Morgan Chase, Barclays, The Royal Bank of Scotland and UBS AG – pleaded guilty to market manipulation and were fined up to US$5.5 billion. Furthermore, they agreed to corporate probation, which obliges the bank to regularly report to authorities.[12]

Two years later, in 2017, a New York Times article detailing the numerous allegations of sexual harassment against Harvey Weinstein was published. He was prosecuted in several jurisdictions for rape, sexual assault and sexual abuse, resulting in his removal from the Academy of Motion Picture Arts and Sciences.[13] The New York Times article not only uncovered the deplorable corporate culture of the film industry, but it also sparked the #Metoo social movement.

One year later, in 2018, the US Federal Trade Commission (FTC) imposed a US$5 billion penalty on Facebook for privacy violation. In addition, the FTC also requested that Facebook modify its corporate structure

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6 Armstrong, "Why Does Corporate Governance Matter: Workshop on Corporate Governance Reporting" (June 2014)

7 OECD (2015), G20/OECD Principles of Corporate Governance, OECD Publishing, Paris. http://dx.doi.org/10.1787/9789264236882-en

8 G20/OECD Principles of Corporate Governance, http://dx.doi.org/10.1787/9789264236882-en

9 Andrei Shleifer and Robert W. Vishny, "A Survey of Corporate Governance", *The Journal of Finance* no. 52 (June 1997).

10 OECD (2015), G20/OECD Principles of Corporate Governance, OECD Publishing, Paris. http://dx.doi.org/10.1787/9789264236882-en

11 Philip Armstrong, "Why Does Corporate Governance Matter: Workshop on Corporate Governance Reporting", *International Finance Corporation World Bank Group* (June 2014).

12 The United States Department of Justice Office of Public Affairs, *Five Major Banks Agree to Parent-Level Guilty Pleas*, No. 15-643, Washington DC, July 2015, https://www.justice.gov/opa/pr/five-major-banks-agree-parent-level-guilty-pleas (Accessed 9 July 2022).

13 Jodi Kantor and Megan Twohey, "Harvey Weinstein Paid Off Sexual Harassment Accusers For Decades", *The New York Times*, 5 October 2017, https://www.nytimes.com/2017/10/05/us/harvey-weinstein-harassment-allegations.html (Accessed 9 July 2022).

to hold the company accountable for its users' privacy.[14]

The lack of an effective corporate governance model that ensures accountability, transparency, equality and inclusiveness has ultimately caused irrecoverable reputational and financial loss to the aforementioned companies. The examples above are merely the tip of the iceberg, and it is for this reason that corporate governance is still heavily researched and studied by modern academics and corporations.

The heightened awareness of corporate governance raises several salient questions. Is there an empirical correlation between corporate governance and higher performance? To what extent does corporate governance affect the performance of the company? Is there a causal relationship between corporate governance and better performance? The goal of this paper is to address the aforementioned questions.

Agency Theory – Empirical Correlation between Corporate Governance and Higher Performance

Does good corporate governance necessarily drive higher corporate performance? In 'Good Governance driving Corporate Performance? A meta-analysis of academic research & invitation to engage in the dialogue', 'good' governance refers to the 'three mainstream theories, agency theory, stakeholder theory and stewardship theory'.[15] These three theories were proposed as the fundamental explanations of corporate governance. However, it is worth mentioning that most studies are primarily based on agency theory.

In the same paper, agency theory is defined as 'a mix of systems and mechanisms to align interest of parties, which ensures that the voice of stakeholders is heard and information is distributed fairly. Its structures and mechanisms act as a commitment so as to motivate all parties to work together towards a common goal.'[16]

There are several major governance variables that have a proven positive correlation with corporate performance to allow boards and directors to better decide on the right path. In line with agency theory, the board adopts a system that encompasses the interests of the board and its shareholders. Research shows that board independence, remuneration, CEO characteristics, oversight and ownership structures are the most effective variables of 'good' governance.[17] These governance variables have a positive effect on the likelihood that companies improve their financial and non-financial performance. Empirical studies conclude a positive correlation between governance variables and corporate performance, measured in both financial and non-financial metrics.

Governance variable: Board independence

As reviewed in the paper 'Good Governance driving Corporate Performance?', 'board independence' is 'commonly measured as the percentage of independent non-executives on the board'. When an appropriate number of independent members are on the board, the relative effectiveness of the board as a monitor is higher.[18] Since the independence of members allows individual thinking and avoids forming cliques to act in collusion, this improves objectivity and its ability to represent multiple perspectives, instead of monopolised one-sided opinions.[19]

However, the downside of an increase in independence is that professional performance will be hindered due to a lack of expertise that experienced executives can provide. The time for decision-making, the cost of production and administrative efficiency will be slowed down when the size of the board increases, which opens up a variety of options. This can be remediated by adding a committee of professionals to the board as a think tank, providing the specialist knowledge and expertise to tackle particular issues.

14 The United States Federal Trade Commission Bureau of Consumer Protection, *FTC Imposes $5 Billion Penalty and Sweeping New Privacy Restrictions on Facebook*, Washington DC, July 2019 https://www.ftc.gov/news-events/news/press-releases/2019/07/ftc-imposes-5-billion-penalty-sweeping-new-privacy-restrictions-facebook (Accessed July 2022).

15 Denise Valkering and Hanna Waltsgott, "Good Governance driving Corporate Performance? A meta-analysis of academic research & invitation to engage in the dialogue", Deloitte, December 2016, https://www2.deloitte.com/content/dam/Deloitte/nl/Documents/risk/deloitte-nl-risk-good-governance-driving-corporate-performance.pdf (Accessed July 2022).

16 Valkering and Waltsgott, "Good Governance driving Corporate Performance? A meta-analysis of academic research & invitation to engage in the dialogue", Deloitte, December 2016.

17 Valkering and Waltsgott, "Good Governance driving Corporate Performance? A meta-analysis of academic research & invitation to engage in the dialogue", December 2016.

18 Kock, C.; Santaló, J.; Diestre, L. (2012). Corporate Governance and the Environment: What Type of Governance Creates Greener Companies? *Journal of Management Studies*, Vol 49, pp. 492-514.

19 Mallin, C.; Michelon, G.; Raggi, D. (2013). Monitoring Intensity and Stakeholders' Orientation: How Does Governance Affect Social and Environmental Disclosure? *Journal of Business Ethics*, Vol. 114, pp. 29-43.

Governance variable: Remuneration

Some companies would use remuneration to 'align the interests of the shareholders and the management'.[20] They would implement board compensation policies, requiring the CEO to own company stocks. This has a positive effect on a company's productivity and efficiency.[21] It acts as a financial incentive for long-term value creation[22] to ensure that the CEO shall act in good faith for the company. CEO stock ownership and other performance-related compensation also increase the CEO's behaviour to seek external advice that results in better financial performance.[23] Incentives also affect non-financial performance. The presence of environmental incentives as part of board compensation, or CEO long-term pay, show a positive effect on environmental regulatory performance,[24] especially for heavily polluting industries.[25]

Governance variable: CEO characteristics

The CEO plays a crucial role in a company, especially for setting the strategic blueprint and development prospects. The CEO's discretionary powers positively influence a company's financial performance.[26] Depending on the CEO's individual networking capacity, one can receive advice from their external connections.[27] CEO duality refers to the situation where the CEO holds the position of both CEO and Chairman – this combination makes the CEO more powerful, with the authority to control and realise positive changes.[28] Such a dual structure provides a 'single focal point, firm stability and better communication between management and board'.[29] However, it should be noted that a powerful CEO also makes more risky decisions,[30] which in a worst-case scenario can result in bankruptcy. Such decisions may not be made before listening to the advice of the board, and can lead to dictatorship and tyranny, impacting on the company's long-term financial performance. The performance of the company might fluctuate, based on the CEO's decisions, which is highly unfavourable. Hence, CEO duality is a double-edged sword, with both positive and negative impacts on a company's financial performance.[31]

Research results conclude that good governance enhances corporate performance, where the above identified 'good' governance variables are evaluated with an 'academically proven positive impact on performance'.[32] Evidence concludes that these variables can enhance corporate performance, but then, 'no one size fits all'.[33] The 'good' governance variables are only guidelines to structurally improve the decision-making process. Ultimately, it is the board's role to make the right decisions when circumstances dictate. This would require collaboration, oversight and diverse views.[34]

Stewardship Theory – Empirical Correlation between Corporate Governance and Higher Performance

20 Valkering and Waltsgott, "Good Governance driving Corporate Performance? A meta-analysis of academic research & invitation to engage in the dialogue", December 2016.

21 Bozec, R.; Dia, M.; Bozec, Y. (2010). Governance–Performance Relationship: A Re-examination Using Technical Efficiency Measures. *British Journal of Management Studies*, Vol. 21 pp. 684-700.

22 Kanagaretnam, K.; Lobo, G.; Mohammad, E. (2009) Are Stock Options Grants to CEOs of Stagnant Firms Fair and Justified? *Journal of Business Ethics*, Vol. 90, pp. 137-155.

23 McDonald, M.; Khanna, P.; Westphal, J. (2008). Getting them to think outside the circle: Corporate Governance, CEO's External advice. *Academy of Management Journal*, Vol. 51, pp. 453-475.

24 Rodrigue, M.; Magnan, M.; Cho, C.(2013). Is Environmental Governance Substantive or Symbolic? An Empirical Investigation. Journal of Business Ethics, Vol. 114, pp. 107-129.

25 Beronne, P.; Gomez-Mejia, L. (2009). Environmental performance and executive compensation: an integrated agency-institutional perspective. Academy of Management Journal, Vol. 52, pp. 103-126.

26 Crossland, C.; Hambrick, D. (2007). How national systems differ in their constraints on corporate executives- a study of CEO effects in three countries. *Strategic Management Journal*, Vol. 28, pp. 767–789.49, pp. 718-742.

27 McDonald, M.; Khanna, P.; Westphal, J. (2008). Getting them to think outside the circle: Corporate Governance, CEO's External advice. *Academy of Management Journal*, Vol. 51, pp. 453-475.

28 Joseph, J.; Ocasio, W.; McDonnell, M.(2014). The structural elaboration of board independence: Executive power, institutional logics, and the adoption of CEO-only board structures in U.S. Corporate Governance. *Academy of Management Journal*, Vol.57, pp. 1834–1858.

29 Iyengar, R. J., & Zampelli, E. M. (2009).Self-selection, endogeneity, and the relationship between CEO duality and firm performance. *Strategic Management Journal*, 30(10), 1092-1112.

30 Galema, R.; Lensink, R.; Mersland, R. (2012). Do Powerful CEOs Determine Microfinance Performance? *Journal of Management Studies*, Vol.49, pp. 718-742.

31 Tuggle, C.S.; Sirmon, D.G.; Reutzel, C.R.; Bierman, L (2010) Commanding board of director attention: investigating how organisational performance and CEO duality affect Board members' attention to monitoring. *Strategic Management Journal*, Vol. 31, pp. 946-968.

32 Valkering and Waltsgott, "Good Governance driving Corporate Performance? A meta-analysis of academic research & invitation to engage in the dialogue", Deloitte, December 2016.

33 Arcot, Sridhar R., and Valentina G. Bruno. 2007. "One Size Does Not Fit All, After All: Evidence from Corporate Governance." First Annual Conference on Empirical Legal Studies. (http://ssrn.com/abstract=887947).

34 Valkering and Waltsgott, "Good Governance driving Corporate Performance? A meta-analysis of academic research & invitation to engage in the dialogue", December 2016.

In 'Good Governance driving Corporate Performance? A meta-analysis of academic research & invitation to engage in the dialogue', it is stated that the 'three theories are not mutually exclusive', but instead lay out the foundations for the research of governance and performance.[35] In addition to agency theory, stewardship theory is also used to explain corporate governance and to analyse the dynamics between different stakeholders in a company.[36]

Stewardship theory 'assumes that the management board should put the long-term interest of a group prior to individual self-interest'.[37] Stewards 'consider their interests to be aligned with the interests of the corporation and its shareholders'.[38] Managers are most familiar with the corporate strengths, weaknesses and opportunities,[39] and will match their roles as stewards to maximise the interests of all parties. According to stewardship theory, in 'Good Governance driving Corporate Performance?', the key to 'good' corporate governance is by 'selecting and training capable and reliable workers that shall work towards a common goal with commitment without taking advantage of each other'.[40]

Ownership structure

The ICGN Global Stewardship Principles sets out an 'international framework for investors to implement their fiduciary obligations on behalf of clients and beneficiaries'.[41] Shareholders of large institutions tend to have the incentive and authority to monitor and influence decisions of the board for their own economic good.[42] Research shows that institutional ownership significantly affects the quality of decisions made, as investors will proactively engage to add more perspective[43] for a more all-rounded and inclusive report. This diversity allows more voices to be heard, improving the objectivity of the board.

Difference between theories on paper and in practice

Once the variables are proven to have a positive impact on performance, one might expect the policies to be amended immediately as a follow-up. However, in practice it might be difficult to implement.[44] For example, board composition cannot just be reorganised all of a sudden; projects already in the planning stages also cannot be simply withdrawn. Since governance elements are all interrelated, 'good' governance can only be established when the mechanisms are well coordinated, workers are allocated to their best-suited field and systems are balanced to meet a unified goal.[45] In the paper, 'Good Governance driving Corporate Performance? A meta-analysis of academic research & invitation to engage in the dialogue', when facing dilemmas, it is reflected that a suitable governance setup will effectively identify the issue, acknowledge the problem and motivate support, so that the board will be able to take concerted action.[46]

Stakeholder Theory – Empirical Correlation between Corporate Governance and Higher Performance

Unlike agency theory, which focuses solely on maximising shareholder wealth, stakeholder theory takes a more holistic and comprehensive approach. According to the stakeholder model, 'a corporation is

35 Valkering and Waltsgott, "Good Governance driving Corporate Performance? A meta-analysis of academic research & invitation to engage in the dialogue", December 2016.

36 Melis, D.A.M. (2014). The institutional investor stewardship myth: A theoretical, legal and empirical analysis of prescribed institutional investor stewardship in a Dutch context. PhD dissertations Nyenrode Business Universiteit, ISBN 9789089800671.

37 Hernandez, M. (2012). Toward an understanding of the psychology of stewardship. *Academy of Management Review*, 37(2), p. 172-193.

38 Valkering and Waltsgott, "Good Governance driving Corporate Performance? A meta-analysis of academic research & invitation to engage in the dialogue", Deloitte, December 2016.

39 Davis, J.H., F.D. Schoorman, L. Donaldson (1997), Towards a stewardship theory of management, *Academy of Management Review*, Vol. 22, No.1, p. 20-47.

40 Valkering and Waltsgott, "Good Governance driving Corporate Performance? A meta-analysis of academic research & invitation to engage in the dialogue", December 2016.

41 "ICGN Global Stewardship Principles", International Corporate Governance Network, December 2020, https://www.icgn.org/sites/default/files/2021-06/ICGN%20Global%20Stewardship%20Principles%202020_1.pdf

42 Valkering and Waltsgott, "Good Governance driving Corporate Performance? A meta-analysis of academic research & invitation to engage in the dialogue", Deloitte, December 2016.

43 Ben-Amar, W. et. al. (2013) What Makes Better Boards? A Closer Look at Diversity and Ownership. *British Journal of Management*, Vol. 24, pp. 85-101

44 Valkering and Waltsgott, "Good Governance driving Corporate Performance? A meta-analysis of academic research & invitation to engage in the dialogue", Deloitte, December 2016.

45 Valkering and Waltsgott, "Good Governance driving Corporate Performance? A meta-analysis of academic research & invitation to engage in the dialogue", Deloitte, December 2016'.

46 Valkering and Waltsgott, "Good Governance driving Corporate Performance? A meta-analysis of academic research & invitation to engage in the dialogue", Deloitte, December 2016.

responsible to a wider constituency of stakeholders other than shareholders. This may include contractual partners such as employees, suppliers, customers, creditors, and social constituents such as the members of the community in which the firm is located, environmental interests, local and national government and society at large'.[47]

As a preliminary matter, it should be stated that 'most empirical literature is generally supportive of a positive relationship between stakeholder-oriented management and firm performance in terms of financial return'.[48] However, as is often the case with management and organisational theories, it is quite difficult to firmly evaluate the impact of the stakeholder approach on firm performance for a few reasons.

Firstly, there is a lack of standardised definition and scope for the concept of stakeholder. To be more specific, in Philips and Reichart (1998), the authors state that 'one glaring shortcoming is the problem of stakeholder identity. That is, the theory is often unable to distinguish those individuals and groups that are stakeholders from those that are not.'[49] While it may seem rather trivial, the question of stakeholder identity becomes paramount when it comes to 'environment and grassroots political activism'.[50]

To address this conundrum, several papers have come up with different approaches to determine whether someone qualifies as a stakeholder. Mitchell et al, for example, developed a framework by asking a simple question, 'whether there is such a thing as an illegitimate stakeholder, and if so how legitimacy should be defined'.[51] On the other hand, instead of eliminating illegitimate stakeholders, Agle et al (1999) conducted an empirical study to define which stakeholders should be considered legitimate.[52]

Unfortunately, the details of the aforementioned theories regarding stakeholder identification are beyond the scope of this paper. However, this has been mentioned for the purpose of illustrating the difficulty that researchers often face when it comes to evaluating stakeholder theory.

Notwithstanding the difficulty of undertaking empirical research, there is still a large body of empirical literature that supports the effectiveness of stakeholder theory. However, what researchers do not agree on is the extent of effectiveness the stakeholder provides. Mitchell et al (1997) suggest that, due to the complexity of empirically establishing causality, the results are often ambiguous, and 'the most that can be demonstrated with current data is that bad, or disregard of, social performance has a negative financial impact on a company'.[53]

Yet the majority of research points to a positive correlation between stakeholder theory and higher firm performance. For instance, Graves and Waddock (1994) found that 'firms that demonstrated a high level of corporate social performance tend to lead to an increase in the number of institutions that invest in the stock'. In other words, the results obtained by Waddock and Graves are 'consistent with a steadily accumulating body of evidence that supports the positive correlation between stakeholder theory and higher firm performance'.[54] Other studies, such as Harrison and Fiet (1999), Luoma and Goodstein (1999), and Ogden and Watson (1999) have also indicated similar results.[55] However, it is important to keep in mind that these results are 'somewhat tentative in nature as the precision of techniques and data sources continue to be

47 Maria Maher and Thomas Andersson, "Corporate Governance: Effects on Firm Performance and Economic Growth", *Organisation for Economic Co-operation and Development,* December 1990, https://www.oecd.org/sti/ind/2090569.pdf

48 Harrison, Jeffrey S. and Andrew C. Wicks. "Stakeholder Theory, Value, and Firm Performance." *Business Ethics Quarterly* 23, no. 1 (2013): 97-124. https://doi.org/10.5840/beq20132314. (i.e., Berman, Wicks, Kotha & Jones, 1999; Choi & Wang, 2009; Hillman & Keim, 2001).

49 Phillips, R. & Reichart, J. 1998. The environment as a stakeholder: A fairness-based approach. *Journal of Business Ethics.*

50 R. Edward Freeman and John McVea, "Stakeholder Approach to Strategic Management", Darden Graduate School of Business Administration University of Virginia, No. 01-02, January 2001.

51 Mitchell, R., Agle, B. & Wood D. 1997. Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. *Academy of Management Review,* 22: 853-886.

52 Agle, B., Mitchell, R. & Sonnenfeld, J. 1999. Who matters to CEOs? An investigation of stakeholder attributes and salience, corporate performance, and CEO values. *Academy of Management Journal,* 42: 507-525.

53 Mitchell et al, 1997.

54 Graves, Samuel & Waddock, Sandra. (1994). Institutional Owners and Corporate Social Performance. *Academy of Management Journal.* 37. 1034-1046. 10.2307/256611.

55 Harrison, J. & Fiet, J. 1999. New CEOs pursue their own self-interests by sacrificing stakeholder valus. *Journal of Business Ethics,* 19: 301-308; Luoma, P. & Goodstein, J. 1999. Stakeholders and corporate boards: Institutional influences on board composition and structure. *Academy of Management Journal,* 42: 553-563; Ogden, S. & Watson, R. 1999. Corporate performance and stakeholder management: Balancing shareholder and customer interests in the U.K. privatized water industry. *Academy of Management Journal,* 42: 526-538.

developed'.[56]

This paper will now evaluate the level of recognition and the reality of stakeholder theory. PM Vasudev (2012) researched the results of a survey of 166 US, UK and Canadian corporations, excluding government-owned or government-sponsored enterprises, included in the 2012 Global 500.[57] The study reviewed the governance-related documents and statements, such as governance guidelines, annual reports, reports on corporate responsibility and sustainability, and vision and mission statements to determine if the company recognises the stakeholder principle, and if so, attempted to identify the manner in which it is implemented.

The results show that 'a total of 98.44%' companies in the survey included non-shareholder interests among their concerns'.[58] Furthermore, no significant difference was seen between the three different countries. The number of companies that did not recognise stakeholder theory was equally insignificant in all three. The study further shows that most companies have included stakeholder corporate governance models into their core values. For instance, BT plc, a UK telecommunication services company stated that 'Business responsibility matters to BT. In fact social and environmental responsibility has been a central part of our business strategy since the early 1990s.'[59] Likewise, Hewlett-Packard Company stated that 'Good Citizenship is good business. We live up to our responsibility to society by being an economic, intellectual and social asset to each country and community in which we do business.'[60] The author of the survey also concluded that the trend seems to be in favour of the stakeholder principle, and that responsible practices are becoming increasingly prevalent because they also make good business sense.

Furthermore, the study revealed a fascinating connection between the recognition of stakeholder theory and firm performance within the financial sector in the UK. The study indicated that 'companies that recognised and implemented corporate responsibility as their distinguishing feature emerged relatively unscathed in the financial crisis of 2008 and 2009'. This is aptly summarised in a statement by Aviva plc, which reads: 'As the global economy faces its toughest challenge in decades, so do many of the world's best-known organisations. While Aviva's robust approach to risk management and financial planning means we are well placed in the economic storm, our approach to corporate responsibility also sets us apart in terms of maintaining customer trust and setting new standards in global corporate citizenship.'[61]

Beyond statements of corporate responsibility and affirmations of such ideas, many companies also publish reports on these issues.[62] Some companies have gone the extra mile and have even obtained independent assurance regarding the authenticity of their reports on corporate responsibility and sustainability. For instance, Aviva, commissioned Ernst & Young LLP to provide external assurance and commentary.[63] The study highlights the growing trend amongst companies to implement concrete action to realise their corporate governance frameworks and policies.[64]

Causal Relationship between Corporate Governance and Higher Performance

Is there a causal relationship between governance and performance? Causality is of great importance to all stakeholders, including but not limited to researchers, investors, policymakers and the CEO. After all, if there were no causal links between corporate governance and performance, it would be meaningless to implement a sophisticated corporate governance model that could

56 R. Edward Freeman and John McVea, "Stakeholder Approach to Strategic Management", Darden Graduate School of Business Administration University of Virginia, No. 01-02, January 2001.

57 Vasudev, P.M. (2012) "The Stakeholder Principle, Corporate Governance, and Theory: Evidence from the Field and the Path Onward," *Hofstra Law Review*, Vol. 41: Iss. 2, Article 6. Available at: http://scholarlycommons.law.hofstra.edu/hlr/vol41/iss2/6

58 Vasudev, P.M. (2012) "The Stakeholder Principle, Corporate Governance, and Theory: Evidence from the Field and the Path Onward," *Hofstra Law Review*, Vol. 41: Iss. 2, Article 6. Available at: http://scholarlycommons.law.hofstra.edu/hlr/vol41/iss2/6

59 Global 500, supra note 2; Our Story, BT, http://www.btplc.com/responsiblebusiness/ourstory/ (last visited July 2022).

60 Corporate Objectives, HEWLETr-PACKARD, http://welcome.hp.com/country/lamericansc_carib/en/companyinfo/corpobj.html (last visited July 2020); Global 500.

61 AVIVA, CORPORATE RESPONSIBILITY REPORT 2009, at 3 (2009), available at http://www.aviva.com/library/reports/cr09/files/2009_Report.pdf; Global 500.

62 GLOBAL SUSTAINABILITY SCORECARD 1 (2011), available at http://www.aboutmcdonalds.com/content/ dam/AboutMcDonalds/Sustainability/Sustainability/o20Library/201 1 -Sustainability-Scorecard.pdf; TESCO.

63 AVIVA, SECURING OUR FUTURE: CORPORATE RESPONSIBILITY REPORT 2011, at 51 (2011), available at http://www.aviva.com/library/reports/crll/docs/complete-report.pdf

64 Vasudev, P.M. (2012) "The Stakeholder Principle, Corporate Governance, and Theory: Evidence from the Field and the Path Onward," *Hofstra Law Review*, Vol. 41: Iss. 2, Article 6. Available at: http://scholarlycommons.law.hofstra.edu/hlr/vol41/iss2/6

potentially be counterproductive to overall profitability.

However, finding causality is not a simple task. This is because, oftentimes, the purported link could be endogenous in nature. The following are a few examples of potential reasons why the link between governance and performance may be endogenous. Firstly, 'firms with higher market values or better operating performance may choose to adopt better governance practices, leading to reverse causality'.[65] Secondly, 'firms with weaker performance may like to adopt more anti-takeover policies, which are generally associated with worse governance'.[66] By the same token, in the case of 'foreign or institutional investors who are more attracted to higher-valued firms, this may also lead to better governance practices'.[67]

For instance, Shabbir (2008) finds that governance and performance have a reverse causal relationship.[68] In his research, he finds that 'firms in the UK become more compliant with the UK governance code in times of financial and economic difficulty, less so when the situation improves'. Likewise, Arcot and Bruno (2007) argue that 'corporate governance is not a one-size-fits-all approach. Companies that have a valid reason to deviate from the code of best practices are no worse governed than companies that blindly comply.'[69] Their study focused on firms in the UK, which employs a 'comply or explain' policy regarding the enforcement of governance regulations. An index that reflects the level of compliance by each company (that is to say, each company is given points for complying with the governance code) fails to show a significant positive correlation between governance and performance. Moreover, companies that opted to 'explain' rather than 'comply' often perform better than those that merely comply.[70]

With that being said, this paper will now explore studies that suggest a causal relationship between the two. As a way to circumvent endogeneity, some researchers focus on 'when' governance matters, rather than 'whether' governance matters. This is to say, the importance of governance may vary in different industries or jurisdictions.

Rajan and Zingales (1998) argue that 'corporate governance is more important in industries that rely more heavily on technological financial dependence because one of the advantages of good corporate governance is lower cost and better availability of external finance'.[71] Hence, corporate governance improves firms' performances by allowing easier access to external finance, which points to a causal relationship between the two. However, it is also worth noting that studies such as Fisman and Love (2007) argue that the aforesaid approach may not be accurate as it may not necessarily be a 'static industry characteristic', but a 'time-varying differences in growth opportunities'.[72]

A more reliable approach for establishing causal relationships is to study the varying impact of a change in laws or regulations in different firms and industries. 'This is commonly referred to as a difference-in-difference approach.'[73] This approach ensures that the causal link is exogenous in nature, as the change in laws or regulations is not under the control of a single firm or industry. Utilising this approach, Nenova (2005) studied the impact of regulations affecting minority shareholder rights in Brazil. She found that after a minority protection law was repealed, the difference between the price of voting and nonvoting shares decreased, but after a new legislation that reinstated minority protection, the price returned to the same level.[74] This study highlighted the direct link between the two variables. Similarly, several papers exploring a change in the U.S. Sarbanes–Oxley Act (SOX) have found that the regulation has made a considerable impact on some

65 Inessa Love, "Corporate Governance and Performance around the World: What We Know and What We Don't", *The World Bank Research Observer* no. 30 (February 2010).

66 Love, "Corporate Governance and Performance around the World: What We Know and What We Don't", (February 2010).

67 Love, "Corporate Governance and Performance around the World: What We Know and What We Don't", (February 2010).

68 Shabbir, Amama. 2008. "To Comply or Not to Comply: Evidence on Changes and Factors Associated with the Changes in Compliance with the UK Code of Corporate Governance." (http://ssrn.com/abstract=1101412).

69 Arcot, Sridhar R., and Valentina G. Bruno. 2007. "One Size Does Not Fit All, After All: Evidence from Corporate Governance." First Annual Conference on Empirical Legal Studies. (http://ssrn.com/abstract=887947).

70 Arcot, Sridhar R., and Valentina G. Bruno. 2007. "One Size Does Not Fit All, After All: Evidence from Corporate Governance.

71 Rajan, R., and L. Zingales. 1998. "Financial Dependence and Growth." *American Economic Review* 88(3): 559–86.

72 Fisman, Raymond, and Inessa Love. 2007. "Financial Dependence and Growth Revisited." *Journal of European Economic Association* 5(2–3): 470–9.

73 Inessa Love, "Corporate Governance and Performance around the World: What We Know and What We Don't", *The World Bank Research Observer* no. 30 (February 2010).

74 Nenova, Tatiana, Morck, Randall, Daniel Wolfenzon, and Bernard Yeung. 2005. "Corporate Law and Control Values in Brazil." Latin American Business Review 6(3): 1–37.

firms, thereby suggesting a causal relationship between the two.[75]

There is a plethora of literature dedicated to tackling and demystifying the causality between corporate governance and performance metrics, such as valuation, operating performance and stock return. Unfortunately, due to the vastness and empirical complexity of corporate governance, a consensus has not yet been reached by researchers. However, there is a growing consensus amongst researchers that corporate governance and performance are positively correlated. Furthermore, there is a growing number of studies that indicate corporate governance is more likely to be exogenous rather than endogenous, and hence it is dependent on specific characteristics of the firm and its environment. Yet, it is still unclear which governance provisions are important for which types of firm and in which types of environment.

Conclusion

In conclusion, empirical literature suggests that good corporate governance – whether based on the agency model, stakeholder model or stewardship model – leads to a better future for organisations. Most research on agency theory indicates that a firm adopting a system that involves the interests of all parties tends to reflect the effective variables of 'good' governance.

The positive effects of such variables will influence and improve the company's financial and non-financial performance. Meanwhile, studies of stakeholder theory suggest that firms that incorporate corporate governance and corporate social responsibility as their core values are more likely to attract investors, which leads to better financial performance. Likewise, literature on stewardship theory suggests that putting the long-term interest of a group ahead of individual self-interest will maximise the benefits.[76] The oversight of prioritising collective interest first will allow bonding and close-knitted team collaboration. All parties are committed to dedicating all their efforts to working towards a common goal without taking advantage of each other. This further strengthens productivity and efficiency, improving both the work environment and financial performance. Turning to the question of causality, it seems that a consensus has yet to be reached amongst researchers and scholars. This is due to the difficulty in designing a study that effectively circumvents the problem of endogeneity. However, there is a growing number of studies that suggests the link between corporate governance and higher firm performance is indeed exogenous. Furthermore, most researchers agree that corporate governance and higher firm performance are generally positively correlated.

75 Litvak, Kate. 2007a. "The Effect of the Sarbanes-Oxley Act on Non-US Companies Cross-Listed in the US." Journal of Corporate Finance 13:195– 228. (http://ssrn.com/abstract=876624). 2007b. "Sarbanes–Oxley and the Cross-Listing Premium." Michigan Law Review 105: 1857–98. (http://ssrn.com/abstract=959022); Wintoki, M. Babajide, 2007, "Corporate Boards and Regulation: The Effect of the Sarbanes–Oxley Act and the Exchange Listing Requirements on Firm Value." *Journal of Corporate Finance* 13(2–3): 229–50.

76 Hernandez, M. (2012). Toward an understanding of the psychology of stewardship. *Academy of Management Review*, 37(2), 172-193.

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Photo Gallery

The top six teams were invited to present their papers on 17 September 2022 and compete for the Best Presentation Award and the Audience's Favourite Team Award.

Team 1 to Team 6

Team 1
(From left) **Charmaine Ser and Takase Chong**
The Chinese University of Hong Kong

Team 2
(From left) **Jack Chan, Christy Ma, Tong Chong and Natalie Ling**
City University of Hong Kong

Team 3
(From left) **Curtis Chan, Ada Tang and Billy Chung**
The University of Hong Kong

Team 4
(From left) **Yvonne Lau and Winona Lau**
The University of Hong Kong and The Chinese University of Hong Kong

Team 5
(From left) **Miranda Sin, Skyllar Tam, Sally Cheung and Rachel Leung**
The Chinese University of Hong Kong

Team 6
(From left) **Ian Leung, Jenny Ho and Kelly Cheung**
The University of Hong Kong, The Hong Kong University of Science and Technology and The Hang Seng University of Hong Kong

Awardees of Paper Competition

Stella Lo FCG HKFCG(PE), Institute Council Member and Education Committee Chairman, presenting certificates to the awardees of Paper Competition 2022 in appreciation of their achievement.

Best Paper Award

Winona Lau and Yvonne Lau

The Chinese University of Hong Kong and The University of Hong Kong

(From left) **Winona Lau and Yvonne Lau**

First runner up

Curtis Chan, Billy Chung, Janice Lam and Ada Tang

The University of Hong Kong

(From left) **Curtis Chan, Billy Chung and Ada Tang**

Second runner up

Takase Chong and Charmaine Ser

The Chinese University of Hong Kong

(From left) **Charmaine Ser and Takase Chong**

Ellie Pang FCG HKFCG(PE), Institute Chief Executive, presenting the Merit Certificates to awardees of Paper Competition 2022.

Merit

Jack Chan, Tong Chong, Natalie Ling and Christy Ma

City University of Hong Kong

(From left) **Natalie Ling, Christy Ma, Tong Chong and Jack Chan**

Merit

Sally Cheung, Rachel Leung, Miranda Sin and Skyllar Tam

The Chinese University of Hong Kong

(From left) **Rachel Leung, Sally Cheung, Skyllar Tam and Miranda Sin**

Merit

Kelly Cheung, Jenny Ho, Ian Leung and Karen Tam

The University of Hong Kong, The Hong Kong University of Science and Technology and The Hang Seng University of Hong Kong

(From left) **Ian Leung, Jenny Ho and Kelly Cheung**

Awardees of Paper Presentation

Kenny Luo FCG HKFCG, Institute Council Member and Membership Committee member, presenting certificates to the awardees of Paper Presentation 2022 in appreciation of their achievement.

Best Presentation Award

(From left) **Curtis Chan, Billy Chung and Ada Tang**

The University of Hong Kong

First runner up

(From left) **Rachel Leung, Skyllar Tam, Sally Cheung and Miranda Sin**

The Chinese University of Hong Kong

Second runner up

(From left) **Ian Leung, Jenny Ho and Kelly Cheung**

The University of Hong Kong and The Hong Kong University of Science and Technology

Ellie Pang FCG HKFCG(PE), Institute Chief Executive, presenting the Merit Certificates to awardees of Paper Presentation 2022.

Merit

(From left) **Charmaine Ser and Takase Chong**

The Chinese University of Hong Kong

Merit

(From left) **Natalie Ling, Christy Ma, Tong Chong and Jack Chan**

City University of Hong Kong

Merit

(From left) **Yvonne Lau and Winona Lau**

The University of Hong Kong and The Chinese University of Hong Kong

Awardees of Audience's Favourite Team

Stella Lo FCG HKFCG(PE), Institute Council Member and Education Committee Chairman, presenting certificate to the awardees of Audience's Favourite Team in appreciation of their achievements.

(From left) **Rachel Leung, Skyllar Tam, Sally Cheung and Miranda Sin**
The Chinese University of Hong Kong

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Paper Competition Reviewers

1. Prof Dennis Chan, Senior Lecturer, Department of Finance, CUHK Business School, The Chinese University of Hong Kong
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2. Philip Miller FCG HKFCG, Deputy Company Secretary, The Hongkong and Shanghai Banking Corporation Limited
3. Dr Maurice Ngai FCG HKFCG(PE), Director and Group CEO, SWCS Corporate Services Group (Hong Kong) Limited

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