TECHNISCHE UNIVERSITÄT DRESDEN

DRESDEN concept

8th ANNUAL CONFERENCE RISK GOVERNANCE
RISK GOVERNANCE AND RISK MANAGEMENT IN CHANGE

Which corporate governance mechanisms drive corporate sustainability? Implications for Risk Governance

Paul Ludwig

Prof. Dr. Remmer Sassen

Content

1. Overview of Research Goal and Methodology
2. The Analysis Grid
3. The Results of the Analysis Grid
4. Discussion of Critical Issues
5. Outlook

Recent crises show the urgent necessity of a sustainable corporate governance approach.

Corporate Sustainability:

- Based on the three pillars of sustainability
- Based on sustainable development
  - Future- orientated
- Often stakeholder theory based
- Transparency and CSR-strategy
  - Stakeholder communication

Corporate Governance:

- Defined by the Cadbury Committee in 1992
- Dependent on external and internal mechanisms
  - External mechanisms country and culture based
  - Internal mechanisms corporation based
- Mostly agency theory based
- Two systems: one-tier, two-tier
  - One-tier system more than twice as often favored, favored by Anglo-Saxon countries

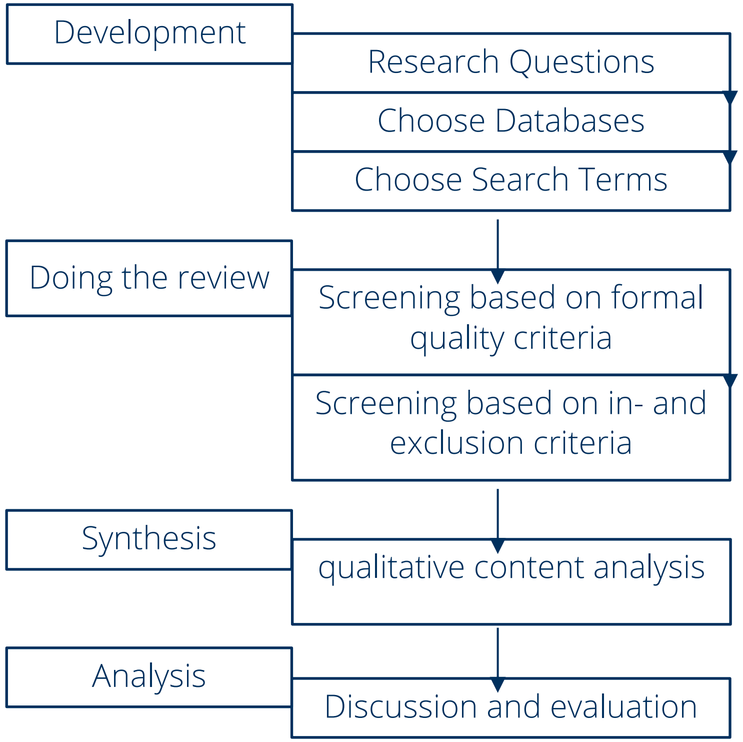
Research Questions

1. **What is the current state of research regarding the relationship between sustainability and internal corporate governance structures?**

2. Which internal corporate governance mechanism can drive corporate sustainability?

3. How can sustainable related issues be integrated into corporate governance?

56 studies were included after conducting the process of a systematic literature review according to Moher et al. (2009)



Process of a systematic literature research according to Fink (2014), p. 3 ff (own illustration)

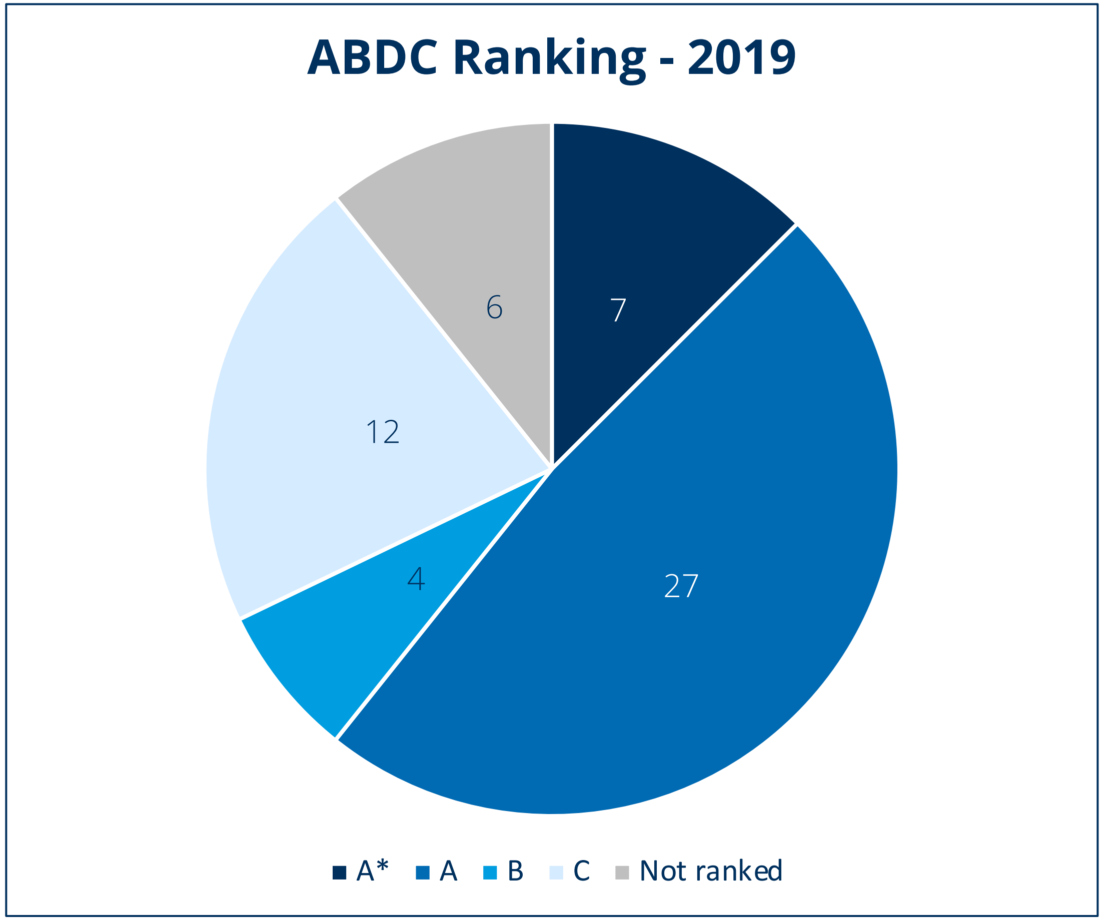
<u>Identification:</u>
- 1150 records identified through database searching
- 4 additional records identified through other sources

<u>Screening:</u>
- 1017 records after duplicates removed
- 925 records excluded

<u>Eligibility:</u>
- 36 articles excluded, with reason

<u>Included:</u>
- 56 studies included

The majority of publications was found in A*, A, or B ranked journals.



- 26 different journals
- Ca. 68% ranked A*, A, or B
- Ca. 21% ranked C
- Ca. 10% not ranked by Australian Business Deans Council (2019)

Number of articles and ABDC-ranking of the two most cited journals :

- Business Strategy and the Environment
  - 13/A
- Journal of Business Ethics
  - 12/A

The analysis grid presents eight deductive structural criterias.

Studies included (n=56)

Analysis grid

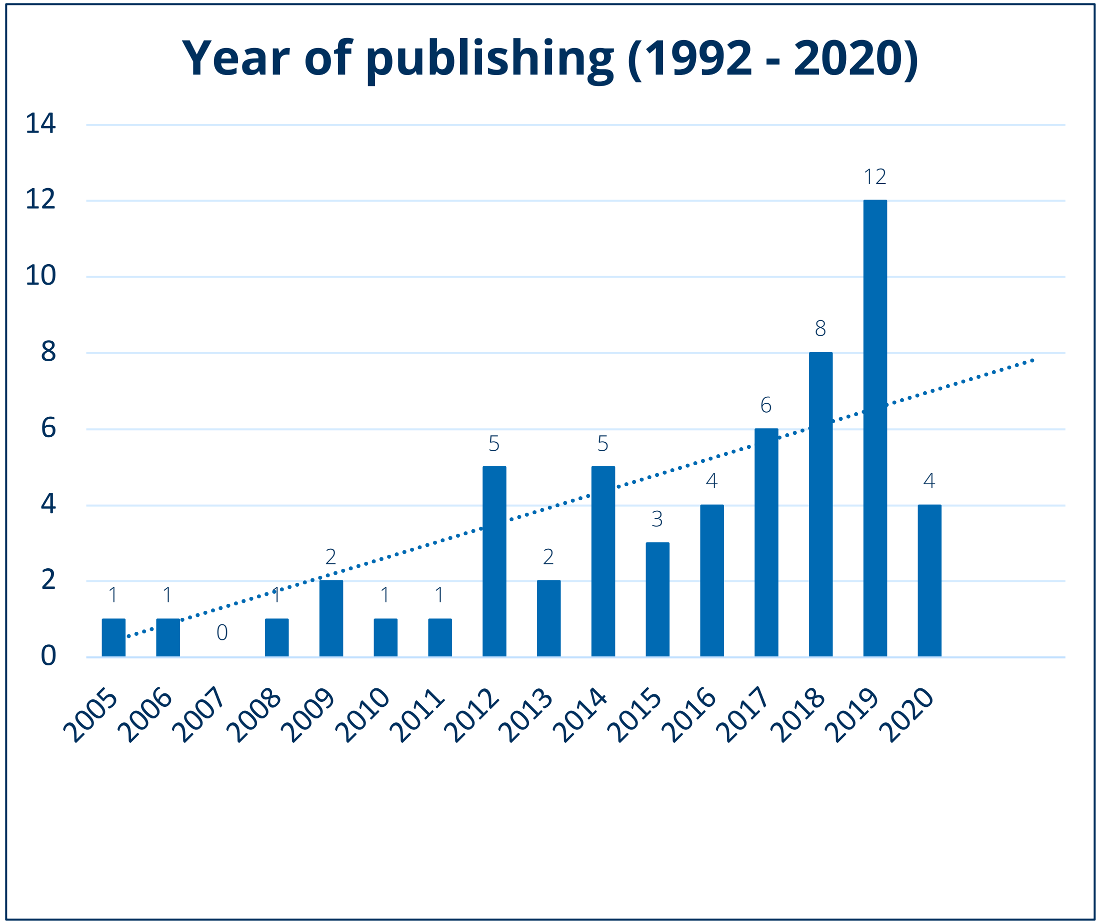
General

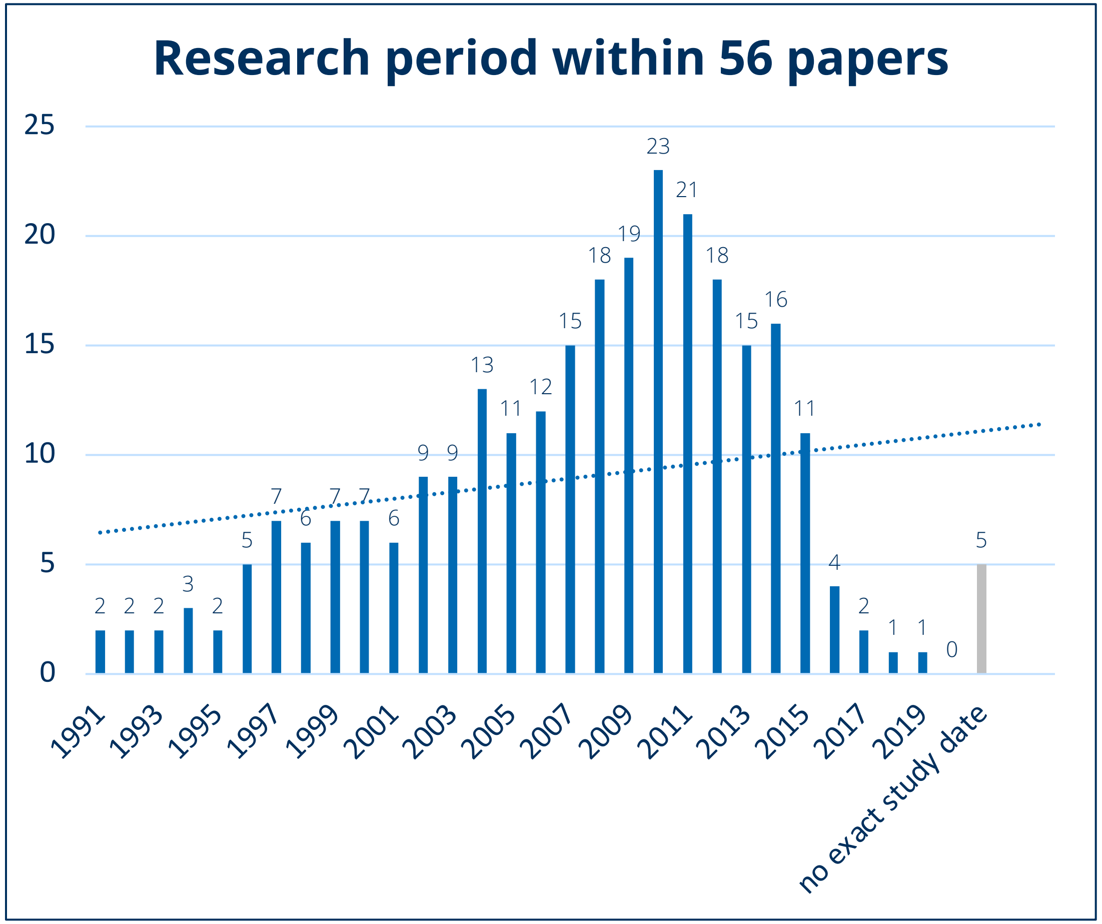
- Year of publishing
- Research period
- Sample size
- Regional research participation

Specific

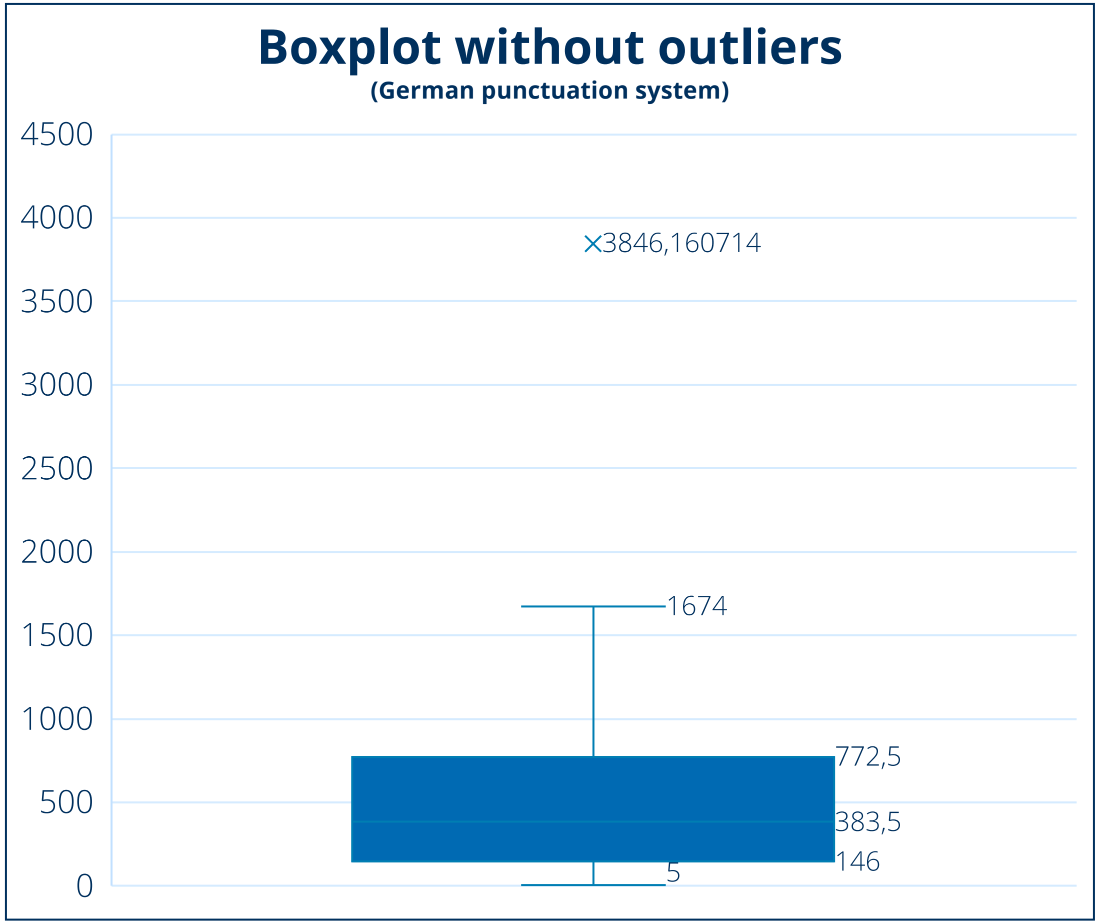
- Place of Study
- Used theory
- Pillar of Sustainability
- Internal governance mechanisms

The interest in the relationship of corporate governance and corporate sustainability is increasing.



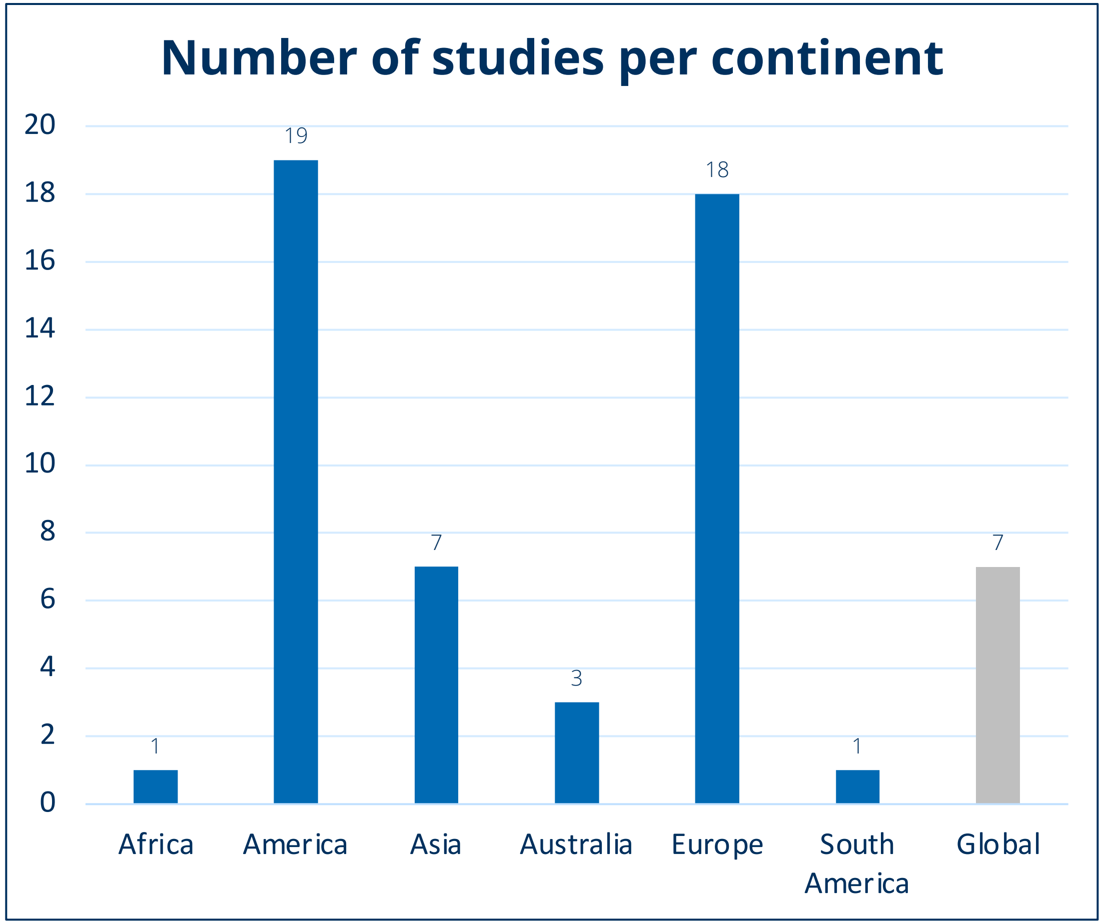


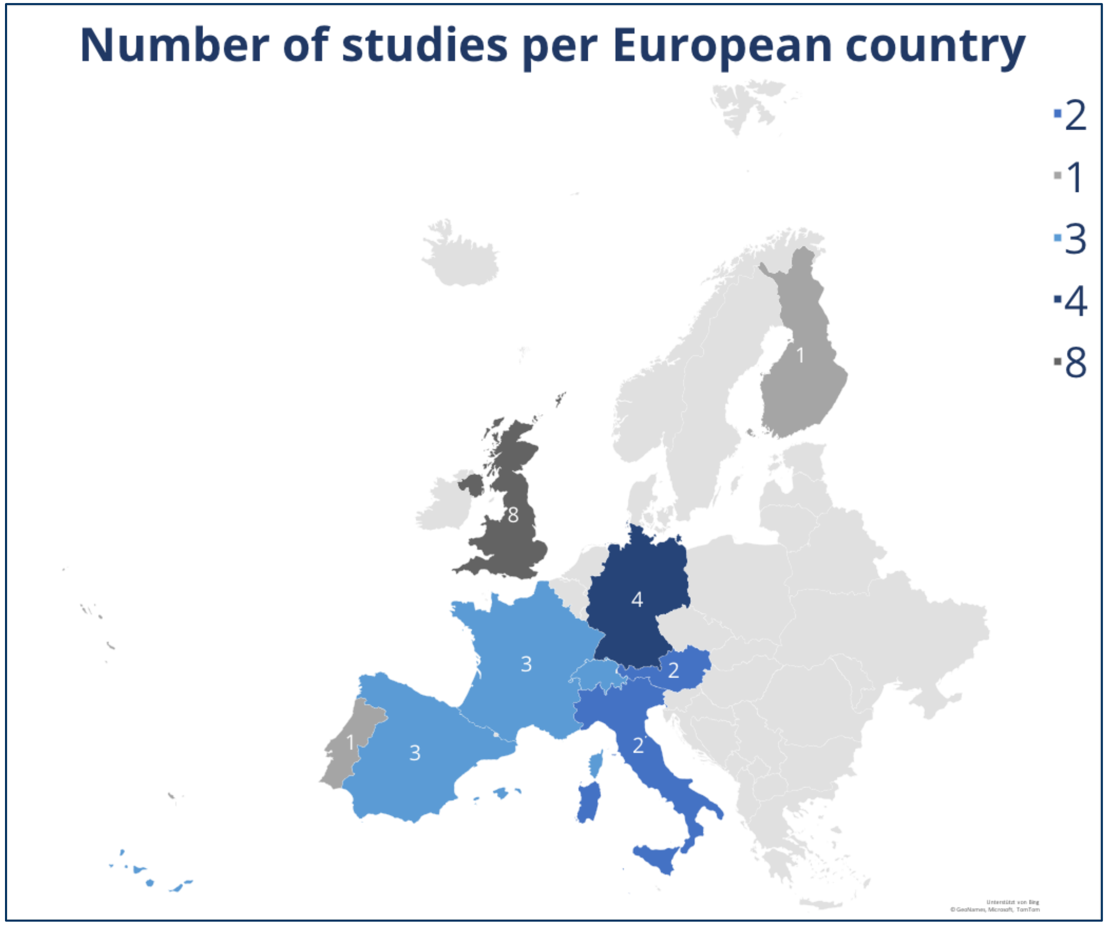
The average sample size is not informative, as it is biased by upper outliers.



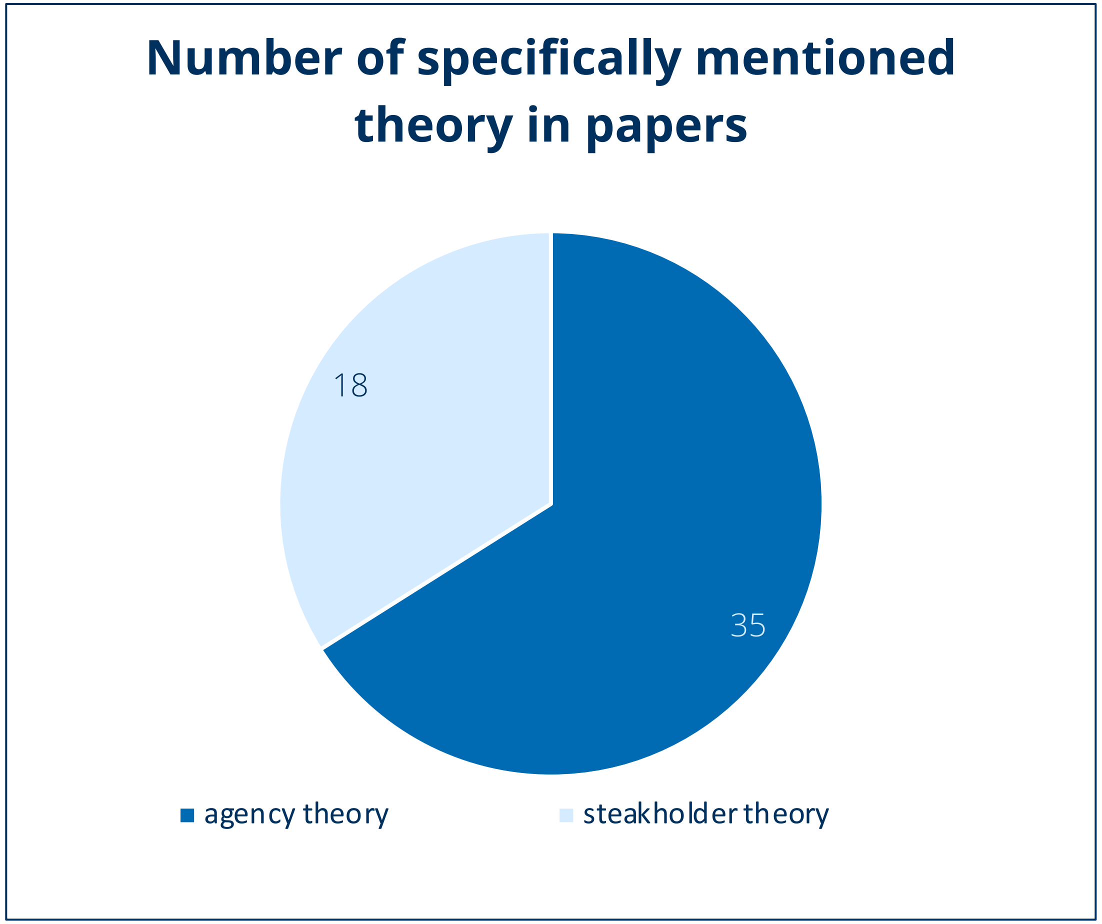
statistical data	value
Mean	**3,846.160714**
Minimum	**5**
Q1	146
Median	**383.5**
Q3	772.5
Maximum	**167,713**
Interquartile Range (IQR)	626,5
1.5 IQR	939.75
Upper outliers	1,712.25
Lower outliers	-793.75
Number of upper outliers	**7**

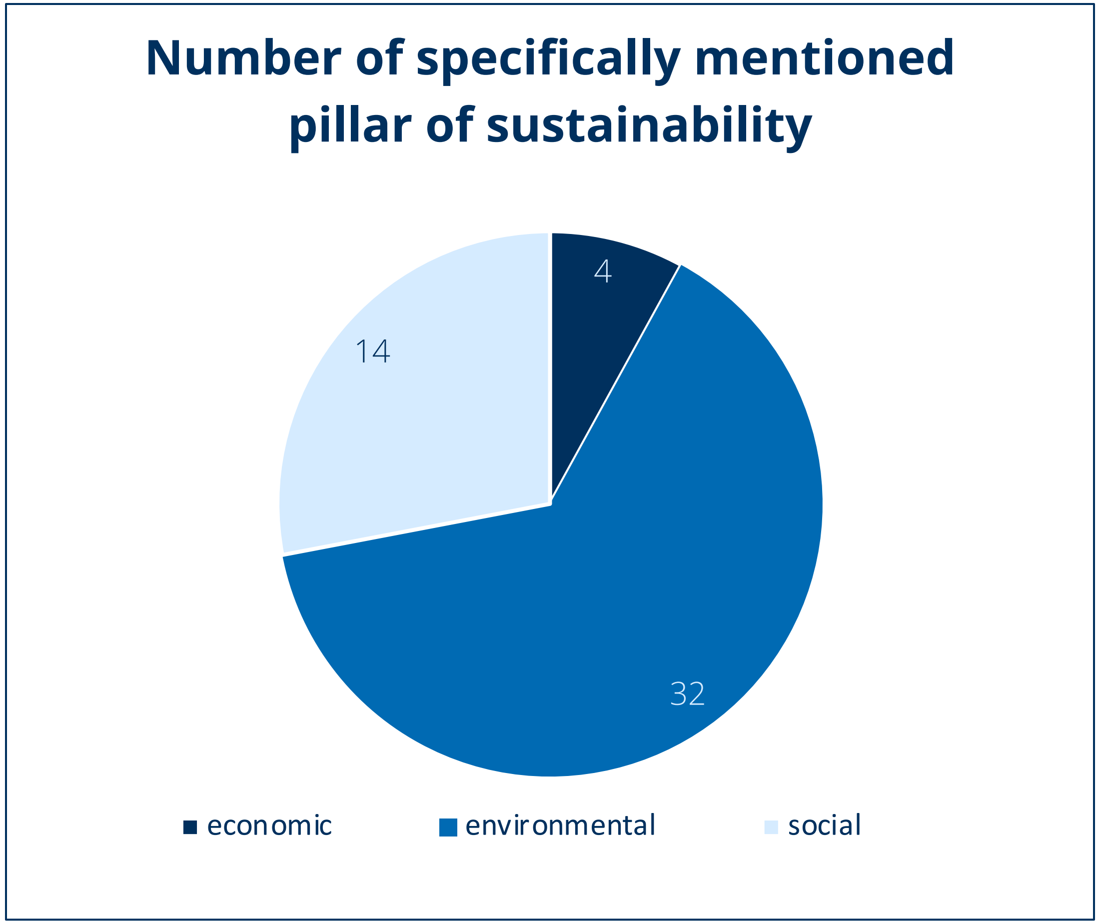
30 out of 56 studies are based in Anglo-Saxon countries.



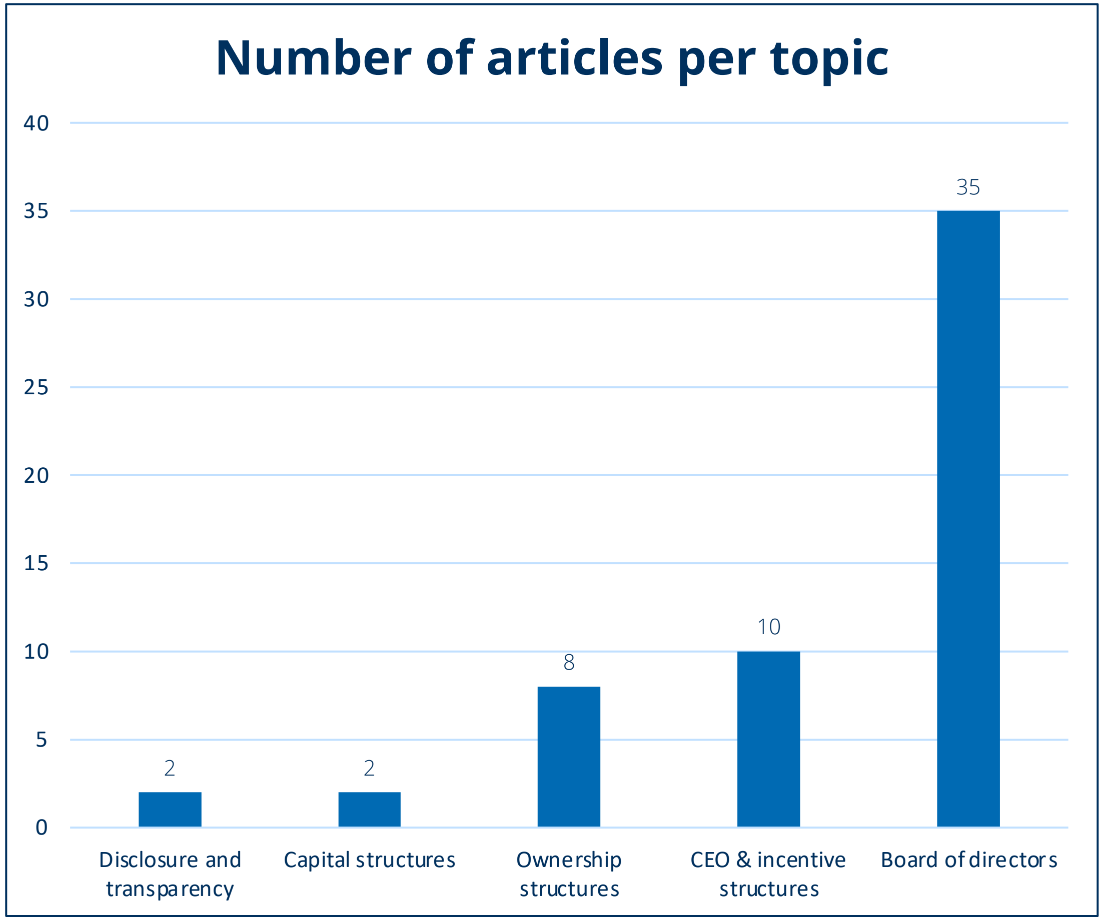


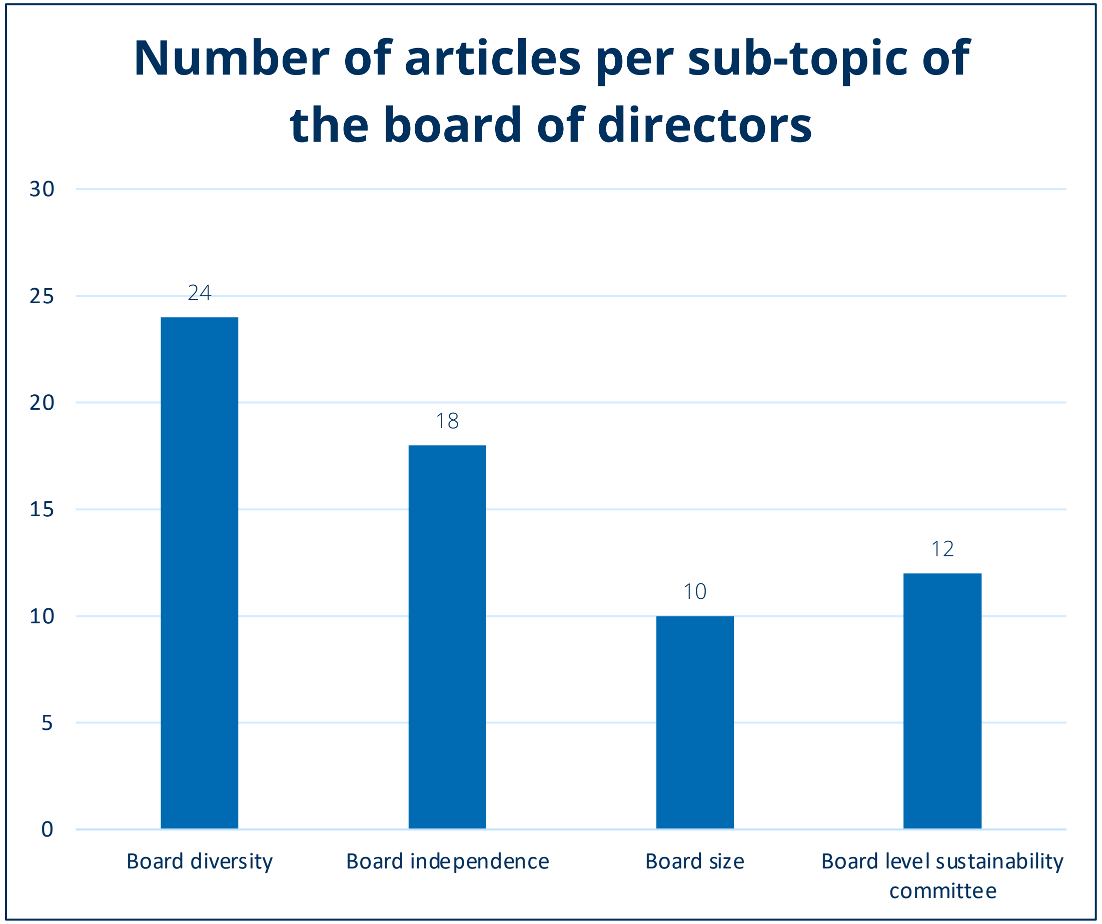
Most papers explicitly stated to be based on the agency theory and the environmental pillar of sustainability.





While a big number of studies concentrated on the board of directors, the role of other mechanisms is not considered that often.





All internal governance mechanisms play an important role to integrate corporate sustainability into corporate governance.

- Sustainable board improvements:
  - More diversity
  - More independency
  - Appropriate size
  - Board level sustainability committee
- Influence factors on the CEOs' sustainability perspective:
  - Shorter career perspective
  - Independency
  - educational specialization

All internal governance mechanisms play an important role to integrate corporate sustainability into corporate governance.

- Motivators for CEOs:
  - monetary motivation for sustainability
  - CEO-ownership
- The literature on incentive structures is diverse and partly controversial
  - Compensation found in positive and negative relationship
  - Total pay positive outcomes
  - Bonuses no correlation
- The literature on ownership structures is diverse and partly controversial
  - Many positive possibilities
  - Both, state and public ownership structures positive
  - Block holder ownership found negative
  - CEO/top management team ownership found negative and positive

All internal governance mechanisms play an important role to integrate corporate sustainability into corporate governance.

- The capital structure is found to be influential
  - Positive findings for the relationship of capital intensity and environmental performance
  - Positive findings for the relationship of financial capacity and corporate sustainability performance
- Influence of disclosure and transparency
  - Increased likeliness of repeated disclosure if disclosed before
  - Increasing market and financial performance as result of transparency

The research in the topic is increasing, however, some governance mechanisms are studied more often than others.

- Increasing research and hence interest
- Mostly focusing on the agency theory and the ecological pillar of sustainability
  - Lack of literature considering other theories and pillars of sustainability
- Mostly considering data from countries preferring one-tier governance systems
- Mostly considering single corporate governance mechanisms
  - Lack of literature on governance mechanisms other than the board of directors
  - Lack of literature on the influence of multiple mechanisms simultaneously
  - Lack of literature on the influence of the interrelation of multiple mechanisms

- **Assumable that considering all internal corporate governance mechanisms and their interrelation in the strategy to integrate corporate sustainability is the most effective**
  - All internal governance mechanisms have a relation with corporate sustainability

Implications for Risk Governance

- **A sustainable corporate governance focus reduces risk**
- The long- term orientation of sustainable development reduces short- term risk
- Sustainable thinking CEOs reduce risk
- Stakeholder focus reduces risk
  - Sustainable boards are appropriatly sized, diverse & independent
  - They lead to increasing stakeholder focus and CSR activity
- A sustainable organisation of ownership structures reduces risk
  - The avoidance of blockholders reduces the risk of aiming for short- term profit

Several structural and content- based limitations may have influenced the results obtained.

- Limited number of databases
  - e.g. exclusion of ELSEVIER ScienceDirect
- Not all articles accessible
- Only selected literature based on findings of search string and filter criteria
- No differentiation of economic situation, firm size or sector
- No differentiation of data from one-tier and two-tier based systems
- Partly conflicting results

Future research is needed for several topics.

Future research:

- Influence of governance mechanisms other than the board of directors
- Influence of multiple mechanisms simultaneously
- Influence of interaction between mechanisms
- Influence of external factors like origin, firm size, or sector
- Meta- analysis of data sets

Thank you for your attention!

For questions: **paul.ludwig@mailbox.tu-dresden.de**

remmer.sassen@tu-dresden.de