# Relationship Between Corporate Governance And Corporate Sustainability Performance: A Critical Review

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**Abstract.** This paper aims to review the inconsistencies that occur in research on corporate sustainability performance (CSP) when it is associated with corporate governance in several countries in the world to try to identify the factors causing the inconsistency. This paper also explains that research relating corporate governance with Corporate Sustainability Performance in developed countries is mostly based on agency theory, as is indeed the case in many Anglo-American countries, such as the US and the UK. This paper argues that research on the relationship between Corporate Governance and Corporate Sustainability Performance should pay more attention to the sample data used as the object of research, the research methods used, clear and strong grand theory references, as well as clustering the type of company industry, so that it is expected to minimize inconsistencies.

**Keywords:** Corporate Sustainability Performance (CSP), Corporate Governance, Inconsistencies, Industry Clustering.

## 1 Introduction

The amount of research on corporate governance and corporate sustainability performance (CSP) has tended to grow in recent years, in accordance with growing recognition that businesses have a duty to uphold their sustainability. Company executives must weigh the financial, environmental, and social implications of their choices while making decisions. Elkington identified the three pillars of sustainability as being people, planet, and profit (1997). In order to attain Corporate Sustainability Performance (CSP), it is thought vital to incorporate these goals into the formulation of the Corporate Governance Strategy[1] . "Mature" businesses are those that, in addition to following the fundamentals of Corporate Social Responsibility (CSR), work with other partners in the same industry to maximize added value by making the best use of resources and stopping material leaks., and reducing

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dependence on non-energy sources. renewable resources, while also proactively engaging stakeholders and prioritizing their needs [2]. Such practices need to involve multiple communities, cooperation, and coordination between companies, which in turn serves to protect the social environment and economic value of the area where the company is located[3]

Studies conducted over the past ten years in a number of nations to determine how corporate governance and corporate sustainability performance (CSP) are related have produced inconsistent results. The size and diversity of the board of commissioners, one of the elements of Corporate Governance, has a positive relationship with Corporate Sustainability Performance (CSP), according to research conducted by Biswas [4]. However, research conducted by Hussain [5] indicates that the size of the board of commissioners has no significant effect on the company's Corporate Sustainability Performance. This necessitates an examination of additional variables that contribute to the inconsistency of the research outcomes.

This research seeks to identify the causes of these discrepancies and propose ways for resolving them. The structure of this document is as follows: The next section discusses Corporate Governance and Corporate Sustainability Performance briefly (CSP). The following section highlights global studies on Corporate Sustainability Performance. The attention is then shifted to the contradictions in the studies on the link between Corporate Governance and Corporate Sustainability Performance, and the debate concludes with a conclusion.

## 2. Result and Discussion

### 2.1 Corporate Governance

Since 1992, the idea of corporate governance has evolved. The emphasis of its current definition is on establishing rules for corporate management and control and guiding their actions to guarantee investors that the resources they provide are managed to optimum profitability and efficiency..Castillo [6] presents various model ideas that have been around since the creation of corporate governance, including:

**Table 1.** Types of corporate governance

| No. | Types | Authors |
|---|---|---|
| 1. | Model of Participant Contracts' Governance (Normative) | Claessens (2003), Weil, Gotshal & Manges (2012), Petrica (2012), Santamaria Mariscal & Andres Alonso (2010), OECD (2004) |
| 2. | Model of Cognitive Governance | Lefort Walker (2003), Wigodski & Zuniga (2003), Petrica (2012), Claessens (2003), Santamaria Mariscal & Andres Alonso (2010), OECD (2004) |
| 3. | Model for Government Finance | Lopez de Silanes, La Porta, Shleifer & Vishny (2000), Zingales (2014), Hilb (2005), Ferro & Chisari (2009), Santamaria Mariscal & Andres Alonso (2010), OECD (2004) |

| | | |
|---|---|---|
| 4. | Good Conducts | Center of Excellence in Corporate Governance (2009:4), OECD (2004) |
| 5. | Making Decisions | McConnell & Denis (2003), Santamaria Mariscal & Andres Alonso (2010), OECD (2004) |

According to the aforementioned paradigm, corporate governance refers to the process of making choices and how those judgments are implemented at a large-scale for commercial purposes. In order to address the need for effective CG standards, Corporate Governance (CG) was created by fusing a number of fundamental ideas. Theories like Shareholder Theory [7], Stewardship Theory [8], Stakeholder Theory [9] , and Agency Theory [10] have contributed to the development of corporate governance as we know it today.

The Principles of Corporate Governance (OECD, 2004), which have been published by the OECD since 1999, include ensuring the foundation for an efficient corporate governance framework, the rights of shareholders, treating shareholders fairly, the role of stakeholders in corporate governance, disclosure and transparency, and the duties of the board, including the board of directors and the board of commissioners.

### 2.2 Corporate Sustainability Performance

Elkington [11] established the Triple Bottom Line (TBL) idea, which identifies business, the environment, and human welfare as the three pillars of sustainability. According to TBL, company objectives are inextricably linked to the surroundings and communities in which they operate. As a result, business decision-makers must take into account not just financial factors but also the environmental and social implications of their choices. By implementing business strategies that emphasize the moral, social, environmental, cultural, and economic aspects of conducting business, the company's corporate sustainability program seeks to provide long-term value for stakeholders [12]. Such a business approach aims to promote consistency, openness, and appropriate staff development in corporate settings [13].

Despite the fact that the two are distinct ideas, corporate sustainability and corporate social responsibility (CSR) are sometimes conflated.In the CSR concept, the ethical, moral, and prevailing norms are emphasized, while Corporate Sustainability only requires companies to make trade-offs to maintain equality between generations[14].

### 2.3 Corporate Governance and Corporate Sustainability Performance in The World

Corporate Sustainability Research Corporate governance-related performance has been investigated widely, however Anglo-American nations continue to do more of it. Businesses that uphold the rule of law effectively may enjoy a better reputation among stakeholders and investors, which supports their success. Companies with effective governance systems also perform well in terms of sustainability and financial performance [15]. According to Manning et al. [16] and Shrivastava et al. [17], the system of corporate governance may affect corporate sustainability performance either as the primary influencing element or as a moderating component [18], [19], [20], [21]. Sometimes a deciding element might also be the gender diversity of the board [22], [23]. To ensure a balanced relationship between the environmental, social, and economic pillars and to secure sustainable management at the corporate level,

corporate governance should combine the efforts of all three areas—environmental, social, and economic—and bring them to life through an appropriate strategy and means [24]. Corporate governance should focus on the quality and content of non-financial reporting to bring pertinent data that covers all of the financial, social, and environmental corporate activities in order to verify the relationship between commercially successful companies and organizations that uphold sustainability principles [25]. It is crucial to create new, standardized measurements and indicators to convey how organizations are helping to achieve sustainability goals [26]

This does not, however, prevent further study into how corporate governance affects corporate sustainability. performance outside of the Anglo-American paradigm in other nations. According to recent studies carried out in South Africa, small unlisted businesses can increase their chances of obtaining external financing from environmentally aware investors, banks, and the government by excelling in environmental sustainability initiatives, performing optimally, and having efficient corporate governance structures in the business [27]. The study further examines the need to broaden the scope of CG practices' examination of Medium-sized Firms' (MSF) performance in light of their contributions to national GDP, provision of employment for a sizable number of the unemployed, and growth in export volume as seen in other developing and emerging nations around the world [28]. Religious [29] and cultural [30] impact may aid in producing exceptional outcomes in developing economies.

As the foundation for corporate reporting and indicators in the execution of corporate responsibility initiatives, as well as a platform for generating investor interest in the firm and public confidence in its operations, sustainability reporting is crucial [31]. A company's success may be considerably impacted by its sustainability performance [32]. However, internal governance methods lower agency expenses and increase the benefits of appropriate business initiatives [33].

### 2.4 Inconsistencies in Studies in Corporate Sustainability Performance

This essay will present a number of research with erratic findings. According to Biswas study [4], Australian firms' corporate sustainability performance is positively impacted by the size and diversity of their boards of directors and commissioners (particularly in terms of gender diversity/female directors) (CSP). Naciti [34], whose study is based on a sample of businesses organized into 6 areas of the globe, supports this result as well. In contrast, research by Hussain on American businesses [5] reveals a different result, namely that the size of the board of commissioners has no appreciable impact on CSP, though Hussain concurs with Biswas that gender diversity in the board of directors has a positive effect on CSP. The study conducted by Minciullo on businesses in numerous European nations also supports this result [35]. Nawawi, meanwhile, reached identical findings using a sample of Indonesian businesses [36]. It's interesting to note that Hussain's research sample was taken from the Sustainability Report based on the Global Reporting Initiative (GRI) Guidelines, which separated the hypotheses one at a time. Biswas and Naciti measured their hypothesis using the overall measure of the Environment, Social & Governance (ESG) report. Utilizing the economic, environmental, and social elements of the Triple Bottom Line (TBL) analysis, examine each one separately. Based on this, we may determine if diverse measuring techniques are the variables that may lead to discrepancy in study findings.

In addition, Biswas' research does not specifically mention the grand theory that underlies his research. However, we can see that the research is based on stakeholder theory rather than agency theory. Meanwhile, Hussain's research clearly states that in his research, it

is not enough to only use agency theory but also use stakeholder theory in several aspects of his research. This makes his research has a stronger and clearer reference to measurement. One other interesting thing, Naciti's research divides its sample into 6 regions in the world, and grouping 26 industry clusters. Thus, this study specifically measures the impact of the size and diversification of the board of directors on CSP per industry cluster.

Apart from that, research conducted by Jitmaneeroj [37] proves that the considerations of policy makers and investors on the four pillars that determine CSP (economic, social, environment, and corporate governance) are not the same, depending on their respective industrial clusters. For example, the dimensions of the economic pillar have the most influence on companies in the energy sector, while the dimensions of the environment pillar have the most influence on companies in the financial industry. This shows that industrial clustering plays a very important role in CSP research.

## 3. Conclusion

The purpose of this paper is to try to provide a perspective on the inconsistency of research results that link between Corporate Governance (CG) and Corporate Sustainability Performance (CSP). Based on the description above, several things must be considered in making research that can at least minimize the inconsistency of research results. The clear basis of the grand theory provides a definite reference so that the research results will refer to a stronger measurement basis. In addition, data sampling and different measurement methods can have an impact on the inconsistency of research results. In addition, the clustering of the industry sample companies under study turned out to be very instrumental in determining the results of the research. By paying more attention to these things, it is hoped that inconsistencies in research results can be minimized. Nevertheless, the opportunity for further research is still open, by including factors such as local culture in the company's decision-making process, or also the company's organizational culture in addressing the four pillars of sustainability performance.

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