The current issue and full text archive of this journal is available at
www.emeraldinsight.com/0025-1747.htm

Governance and sustainability

An investigation into the relationship between corporate governance and corporate sustainability

Güler Aras
Institute of Social Science, Yildiz Technical University, Istanbul, Turkey, and
David Crowther
Leicester Business School, De Montfort University, Leicester, UK

Received September 2007
Revised January 2008
Accepted January 2008

Abstract

Purpose – The purpose of this paper is to show that corporate governance is fundamental to the continuing operation of any corporation; hence much attention has been paid to the procedures of such governance. Similarly sustainability is fundamental to the continuing operation of any corporation, and is arguably the fashionable concept of the moment. While it is clear what is generally meant by corporate governance it is much less clear what is meant by sustainability and the paper starts by investigating this concept.

Design/methodology/approach – For two such fundamental concepts however it would seem that there should be a relationship between the two, although little work has been undertaken on exploring this relationship. The central part of this paper is therefore based upon an exploration of the relationship between governance and sustainability, by investigating the FTSE100 companies and their corporate governance policies.

Findings – This analysis found some strengths – and hence cause for optimism – and some weaknesses – and hence cause for concern. Areas where further work is needed are identified.

Research limitations/implications – The paper has implications in enhancing the understanding of the necessary components of corporate governance, although it is necessarily limited by the size of the sample.

Originality/value – This paper increases the understanding of the relationship between corporate governance, sustainability and sustainable development.

Keywords Corporate governance, Economic sustainability, Financial performance, Sustainable development

Paper type Research paper

Introduction

Every time society faces a new problem or threat then a new legislative process of some sort is introduced which tries to protect that society from a future reoccurrence (Romano, 2004). Recently we have seen a wide range of problems with corporate behaviour, which has arguably led to prominence being given to corporate social responsibility (see for example Boele *et al.*, 2001). Part of this effect is to recognise the concerns of all stakeholders to an organisation, and this has been researched by many people (for example Johnson and Greening, 1999; Knox and Maklan, 2004) with inconclusive findings. Accordingly therefore corporations, with their increased level of responsibility and accountability to their stakeholders, have felt that there is a need to

Management Decision
Vol. 46 No. 3, 2008
pp. 433-448
© Emerald Group Publishing Limited
0025-1747
DOI 10.1108/00251740810863870

www.mana

develop a code for corporate governance so as to guide them towards appropriate stakeholder relations.

A great deal of concern has been expressed all over the world about shortcomings in the systems of corporate governance in operation: Britain, Australia, most other Anglo-Saxon and English speaking countries, and many other countries, have a similar system of governance (Michael and Gross, 2004). Conversely Germany is a good example of where the distance between ownership and control is much less than in the USA, while Japan's system of corporate governance is in some ways in between Germany and the USA, and in other ways different from both (Shleifer and Vishny, 1997). By contrast, in India the corporate governance system in the public sector may be characterized as a transient system, with the key players (namely politicians, bureaucrats, and managers) taking a myopic view of the system of governance. Such international comparisons illustrate different approaches to the problem of corporate governance and the problem of ensuring that managers act in their shareholders' interest. Recently of course much attention to this issue has been paid by institutional investors (Cox *et al.*, 2004).

Good governance is of course important in every sphere of the society whether it be the corporate environment or general society or the political environment. Good governance levels can, for example, improve public faith and confidence in the political environment. When the resources are too limited to meet the minimum expectations of the people, it is a good governance level that can help to promote the welfare of society. And of course a concern with governance is at least as prevalent in the corporate world (Durnev and Kim, 2005).

Corporate governance can be considered as an environment of trust, ethics, moral values and confidence – as a synergic effort of all the constituents of society – that is the stakeholders, including government; the general public etc; professional/service providers – and the corporate sector. One of the consequences of a concern with the actions of an organisation, and the consequences of those actions, has been an increasing concern with corporate governance (Hermalin, 2005). Corporate governance is therefore a current buzzword the world over. It has gained tremendous importance in recent years. Two of the main reasons for this upsurge in interest are the economic liberalisation and deregulation of industry and business and the demand for new corporate ethos (Joyner and Payne, 2002) and stricter compliance with the law of the land. One more factor that has been responsible for the sudden exposure of the corporate sector to a new paradigm for corporate governance that is in tune with the changing times is the demand for greater accountability of companies to their shareholders and customers (Bushman and Smith, 2001).

Sustainability

Just as there has been a vast increase in interest in, and concern for, corporate governance, so too has there been a similar growth in interest in sustainability. A growing number of writers over the last quarter of a century have recognised that the activities of an organisation impact upon the external environment and have suggested that such an organisation should therefore be accountable to a wider audience than simply its shareholders. Such a suggestion probably first arose in the 1970s[1] and a concern with a wider view of company performance is taken by some writers who evince concern with the social performance of a business, as a member of society at

المنارة للاستشارات

www.mana

large. This concern was stated by Ackerman (1975) who argued that big business was recognising the need to adapt to a new social climate of community accountability, but that the orientation of business to financial results was inhibiting social responsiveness. McDonald and Puxty (1979) on the other hand maintain that companies are no longer the instruments of shareholders alone but exist within society and so therefore have responsibilities to that society, and that there is therefore a shift towards the greater accountability of companies to all participants. Implicit in this concern with the effects of the actions of an organisation on its external environment is the recognition that it is not just the owners of the organisation who have a concern with the activities of that organisation. Additionally there are a wide variety of other stakeholders who justifiably have a concern with those activities, and are affected by those activities. Those other stakeholders have not just an interest in the activities of the firm but also a degree of influence over the shaping of those activities. This influence is so significant that it can be argued that the power and influence of these stakeholders is such that it amounts to quasi-ownership of the organisation. Indeed Gray *et al.* (1987) challenge the traditional role of accounting in reporting results and consider that, rather than an ownership approach to accountability, a stakeholder approach, recognising the wide stakeholder community, is needed[2]. Moreover Rubenstein (1992) goes further and argues that there is a need for a new social contract between a business and its stakeholders.

Central to this social contract is a concern for the future which has become manifest through the term sustainability. This term sustainability has become ubiquitous both within the discourse of globalisation and within the discourse of corporate performance. Sustainability is of course a controversial issue and there are many definitions of what is meant by the term. At the broadest definitions sustainability is concerned with the effect which action taken in the present has upon the options available in the future (Crowther, 2002). If resources are utilised in the present then they are no longer available for use in the future, and this is of particular concern if the resources are finite in quantity. Thus raw materials of an extractive nature, such as coal, iron or oil, are finite in quantity and once used are not available for future use. At some point in the future therefore alternatives will be needed to fulfil the functions currently provided by these resources. This may be at some point in the relatively distant future but of more immediate concern is the fact that as resources become depleted then the cost of acquiring the remaining resources tends to increase, and hence the operational costs of organisations tend to increase[3].

Sustainability therefore implies that society must use no more of a resource than can be regenerated. This can be defined in terms of the carrying capacity of the ecosystem (Hawken, 1993) and described with input-output models of resource consumption. Thus the paper industry, for example, has a policy of replanting trees to replace those harvested and this has the effect of retaining costs in the present rather than temporally externalising them. Similarly motor vehicle manufacturers such as Volkswagen have a policy of making their cars almost totally recyclable. Viewing an organisation as part of a wider social and economic system (Hart, 1997) implies that these effects must be taken into account, not just for the measurement of costs and value created in the present but also for the future of the business itself.

Such concerns are pertinent at a macro level of society as a whole, or at the level of the nation state but are equally relevant at the micro level of the corporation, the aspect

المنارة للاستشارات

www.mana

of sustainability with which we are concerned in this work. At this level, measures of sustainability would consider the rate at which resources are consumed by the organisation in relation to the rate at which resources can be regenerated. Unsustainable operations can be accommodated for either by developing sustainable operations or by planning for a future lacking in resources currently required. In practice organisations mostly tend to aim towards sustainability by increasing efficiency in the way in which resources are utilised. An example would be an energy efficiency programme. As far as corporate sustainability is concerned then the confusion is exacerbated by the fact that the term sustainable has been used in the management literature over the last 30 years (see for example Reed and DeFillippi, 1990) to merely imply continuity. Thus Zwetsloot (2003) is able to conflate corporate social responsibility with the techniques of continuous improvement and innovation to imply that sustainability is thereby ensured.

Sustainability is a controversial topic because it means different things to different people. Nevertheless there is a growing awareness of the need to discuss what sustainability means and, crucially, the extent (if at all) it can be delivered by MNCs in the easy manner they promise (United Nations Commission on Environment and Development (Schmidheiny, 1992). The starting point must be taken as the Brundtland Report (WCED, 1987) because there is explicit agreement within that Report and because the definition of sustainability in there is pertinent and widely accepted. Equally, the Brundtland Report is part of a policy landscape being discussed and developed by the United Nations, Nation States and big business through the vehicles of the WBCSD and ICC (see for example, Beder, 1997; Mayhew, 1997; Gray and Bebbington, 2001).

There is a further confusion surrounding the concept of sustainability: for the purist sustainability implies nothing more than stasis – the ability to continue in an unchanged manner – but often it is taken to imply development in a sustainable manner (Marsden, 2000; Hart and Milstein, 2003) and the terms sustainability and sustainable development are for many viewed as synonymous. Ever since the Bruntland Report was produced by the World Commission on Environment and Development in 1987 there has been a continual debate concerning development (Chambers, 1994; Pretty, 1995) and this has added to the confusion between sustainability and sustainable development. For us we take the definition as being concerned with stasis; at the corporate level if development is possible without jeopardising that stasis then this is a bonus rather than a constituent part of that sustainability.

There seem therefore to be two commonly held assumptions which permeate the discourse of corporate sustainability. The first is that sustainability is synonymous with sustainable development. The second is that a sustainable company will exist merely by recognising environmental and social issues and incorporating them into its strategic planning. According to Marrewijk and Werre (2003) there is no specific definition of corporate sustainability and each organisation needs to devise its own definition to suit its purpose and objectives, although they seem to assume that corporate sustainability and corporate social responsibility are synonymous and based upon voluntary activity which includes environmental and social concern, implicitly thereby adopting the EU approach. Most analysis of sustainability (e.g. Dyllick and Hockerts, 2002; Spangenberg, 2004) do not recognise financial performance as an integral part of sustainability. One problem is the fact that the dominant assumption by researchers is based upon the incompatibility of optimising, for a corporation, both

المنارة للاستشارات
www.mana

financial performance and social/environmental performance. In other words financial performance and social/environmental performance are seen as being in conflict with each other through this dichotomisation (see Crowther, 2002). Consequently most work in the area of corporate sustainability does not recognise the need for acknowledging the importance of financial performance as an essential aspect of sustainability and therefore fails to undertake financial analysis alongside – and integrated with – other forms of analysis for this research[4]. We argue that this is an essential aspect of corporate sustainability and therefore adds a further dimension to the analysis of sustainability. Furthermore we argue that the third dimension sometimes recognised as organisational behaviour need to actually comprise a much broader concept of corporate culture. There are therefore four aspects of sustainability which need to be recognised and analysed, namely:

(1) *societal influence*, which we define as a measure of the impact that society makes upon the corporation in terms of the social contract and stakeholder influence;
(2) *environmental impact*, which we define as the effect of the actions of the corporation upon its geophysical environment;
(3) *organisational culture*, which we define as the relationship between the corporation and its internal stakeholders, particularly employees, and all aspects of that relationship; and
(4) *finance*, which we define in terms of an adequate return for the level of risk undertaken.

These four must be considered as the key dimensions of sustainability, all of which are equally important. Our analysis is therefore considerably broader – and more complete – than that of others. Furthermore we consider that these four aspects can be resolved into a two-dimensional matrix along the polarities of internal versus external focus and short term versus long term focus, which together represent a complete representation of organisational performance. It is essential to recognise the realities of the global environment (see Aras and Crowther, 2007a, b) insofar as the company is firmly embedded into a global environment which necessarily takes into account the past and the future as well as the present. This effectively makes a stakeholder out of everything and everybody both in the present and in the future. Sustainability therefore requires a distribution of effects – positive and negative – in a way which eliminates conflict between all of these and pays attention to the future as well as the present. Thus a short term approach is no longer acceptable for sustainability and Figure 1 represents such an approach to sustainability and sustainable development.

The conflation of financial, social and environmental performance

One view of good corporate performance is that of stewardship and thus, just as the management of an organisation, is concerned with the stewardship of the financial resources of the organisation, so too would management of the organisation be concerned with the stewardship of environmental resources. The difference however is that environmental resources are mostly located externally to the organisation. Stewardship in this context therefore is concerned with the resources of society as well as the resources of the organisation. As far as stewardship of external environmental resources is concerned then the central tenet of such stewardship is that of ensuring

المنارة للاستشارات

www.mana

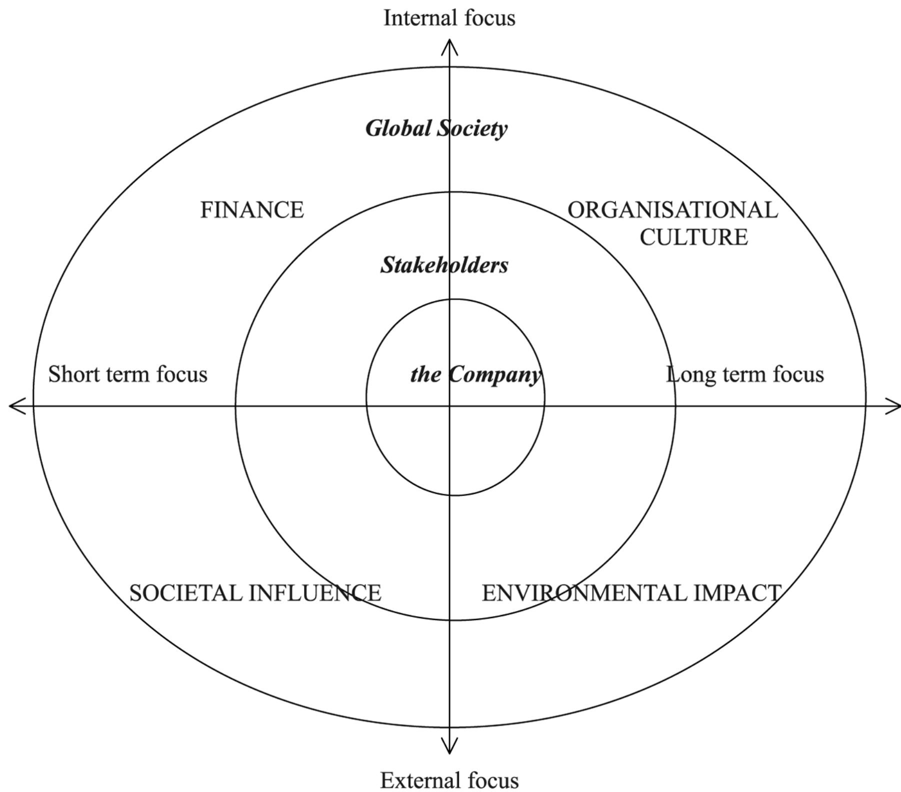

Figure 1.
Model of sustainable development

sustainability. Sustainability is focused on the future and is concerned with ensuring that the choices of resource utilisation in the future are not constrained by decisions taken in the present. This necessarily implies such concepts as generating and utilising renewable resources, minimising pollution and using new techniques of manufacture and distribution. It also implies the acceptance of any costs involved in the present as an investment for the future.

Not only does such sustainable activity however impact upon society in the future; it also impacts upon the organisation itself in the future. Thus good environmental performance by an organisation in the present is in reality an investment in the future of the organisation itself (Waddock and Graves, 1997). This is achieved through the ensuring of supplies and production techniques which will enable the organisation to operate in the future in a similar way to its operations in the present and so to undertake value creation activity in the future much as it does in the present. Financial management also however is concerned with the management of the organisation's resources in the present so that management will be possible in a value creation way in the future. Thus the internal management of the firm, from a financial perspective, and its external environmental management coincide in this common concern for management for the future. Good performance in the financial dimension leads to good future performance in the environmental dimension and vice versa. Thus there is no dichotomy (Crowther, 2002)

المنارة للاستشارات
www.mana

between environmental performance and financial performance and the two concepts conflate into one concern. This concern is of course the management of the future as far as the firm is concerned[5]. The role of social and environmental accounting and reporting and the role of financial accounting and reporting therefore can be seen to be coincidental. Thus the work required needs be concerned not with arguments about resource distribution but rather with the development of measures which truly reflect the activities of the organisation upon its environment. These techniques of measurement, and consequently of reporting, are a necessary precursor to the concern with the management for the future – and hence with sustainability.

Similarly the creation of value within the firm is followed by the distribution of value to the stakeholders of that firm, whether these stakeholders are shareholders or others. Value however must be taken in its widest definition to include more than economic value as it is possible that economic value can be created at the expense of other constituent components of welfare such as spiritual or emotional welfare[6]. This creation of value by the firm adds to welfare for society at large, although this welfare is targeted at particular members of society rather than treating all as equals. This has led to arguments by Tinker (1988), Herremans *et al.* (1992) and Gray (1992), amongst others, concerning the distribution of value created and to whether value is created for one set of stakeholders at the expense of others. Nevertheless if, when summed, value is created then this adds to welfare for society at large, however distributed. Similarly good environmental performance leads to increased welfare for society at large, although this will tend to be expressed in emotional and community terms rather than being capable of being expressed in quantitative terms. This will be expressed in a feeling of wellbeing, which will of course lead to increased motivation. Such increased motivation will inevitably lead to increased productivity, some of which will benefit the organisations, and also a desire to maintain the pleasant environment which will in turn lead to a further enhanced environment, a further increase in welfare and the reduction of destructive aspects of societal engagement by individuals.

Thus increased welfare leads to its own self-perpetuation. In the context of welfare also, therefore financial performance and environmental performance conflate into a general concern with an increase in welfare.

Corporate governance

One of the main issues which has been exercising the minds of business managers, accountants and auditors, investment manages and government officials – again all over the world – is that of corporate governance. Often a company's main target is to become global – while at the same time remaining sustainable – as a means to gain competitive power. But the most important question is concerned with what will be a firm's route to becoming global and what will be necessary in order to get global competitive power. There is more than one answer to this question and there are a variety of routes for a company to achieve this.

Probably since the mid-1980s, corporate governance has attracted a great deal of attention. The early impetus was provided by Anglo-American codes of good corporate governance[7]. Stimulated by institutional investors, other countries in the developed as well as in emerging markets, established or adapted a version of these codes for their own companies. Supra-national authorities like the OECD and the World Bank did not remain passive and developed their own set of standard principles and recommendations. This

المنارة للاستشارات

www.mana

type of self-regulation was chosen above a set of legal standards (Van den Berghe, 2001). After the recent big corporate scandals, corporate governance has become central to most companies. It is understandable that investors' protection has become a much more important issue for all financial markets after the tremendous, high profile firm failures and scandals. Investors are demanding that companies implement rigorous corporate governance principles in order to achieve better returns on their investment and to reduce agency costs. Most of the times investors are ready to pay more for companies to have good governance standards (Beiner *et al.*, 2004). Similarly a company's corporate governance report is one of the main tools for investor' decisions. Because of these reasons companies cannot ignore the pressure for good governance from shareholders, potential investors and other markets actors.

At the same time banking credit risk measurement regulations are requiring new rules for a company's credit evaluations. New international bank capital adequacy assessment methods (Basel II) necessitate that credit evaluation rules are elaborately concerned with operational risk which covers, *inter alia*, corporate governance principles. In this respect corporate governance will be one of the most important indicators for measuring risk. Another issue is related to firm credibility and risk. If the firm needs a high rating score then it will have to be pay attention for corporate governance rules also. Credit rating agencies analyse corporate governance practices along with other corporate indicators. Even though corporate governance principles have always been important for getting good rating scores for large and publicly-held companies, they are also becoming much more important for investors, potential investors, creditors and governments. Because of all of these factors, corporate governance receives high priority on the agenda of policymakers, financial institutions, investors, companies and academics. This is one of the main indicators that the link between corporate governance and actual performance is still open for discussion. In the literature a number of studies have sought to investigate the relation between corporate governance mechanisms and performance (e.g. Agrawal and Knoeber, 1996; Dalton *et al.*, 1998; Bhagat and Black, 1999; Coles *et al.*, 2001; Gompers *et al.*, 2001; Patterson, 2002; Heracleous, 2001; Demsetz and Villalonga, 2002; Bhagat and Jefferis, 2002; Becht *et al.*, 2002; Millstein and MacAvoy, 1998) Most of the studies have shown mixed results without a clear-cut relationship. Based on these results, it seems that corporate governance matters significantly to a company's performance, market value and credibility, and therefore that every company has to apply corporate governance principles. But the most important point is that corporate governance is the only means for companies to achieve corporate goals and strategies. Therefore companies have to improve their strategy and effective route to the implementation of governance principles. So companies have to investigate what their corporate governance policy and practice needs to be.

Corporate governance principles

Since corporate governance can be highly influential for firm performance, firms must know what are the corporate governance principles and how it will improve strategy to apply these principles. In practice there are four principles of good corporate governance, which are:

(1) transparency;

(2) accountability;

المنارة للاستشارات

www.mana

(3) responsibility; and
(4) fairness.

All these principles are related with the firm's corporate social responsibility. Corporate governance principles therefore are important for a firm but the real issue is concerned with what corporate governance actually is.

Management can be interpreted as managing a firm for the purpose of creating and maintaining value for shareholders. Corporate governance procedures determine every aspect of the role for management of the firm and try to keep in balance and to develop control mechanisms in order to increase both shareholder value and the satisfaction of other stakeholders. In other words, corporate governance is concerned with creating a balance between the economic and social goals of a company including such aspects as the efficient use of resources, accountability in the use of its power, and the behaviour of the corporation in its social environment (Sethi, 2002).

The definition and measurement of good corporate governance is still subject to debate. However, good corporate governance will address such points as creating sustainable value, achieving the firm's goals and keeping a balance between economic and social benefit. Also of course good governance offers some long term benefits for a firm, such as reducing risk and attracting new investors, shareholders and more equity.

Good governance and sustainability

There has been a variety of research over time investigating the relationship between the characteristics of a firm and its disclosure (e.g. Cowen *et al.*, 1987; Gray *et al.*, 2001) and equally there is research (e.g. Burke and Longsdon, 1996) showing the benefits of CSR. It is clear that these benefits are also directly related to the sustainability of a firm and that firm's success. It would seem apparent therefore that there should be some attention paid to sustainability within the corporate governance of a corporation. It therefore becomes imperative to conduct an investigation as to what exactly is mentioned about sustainability within such corporate governance. It is to be expected that good corporate governance will foster sustainability in general and will deal specifically with all four elements of sustainability outlined earlier. It therefore becomes possible to state the following hypotheses:

H1. Good corporate governance will address the issue of sustainability.

H2. Good corporate governance will address the societal influence aspect of sustainability.

H3. Good corporate governance will address the environmental impact aspect of sustainability.

H4. Good corporate governance will address the organisational culture aspect of sustainability.

H5. Good corporate governance will address the finance aspect of sustainability.

There has been much work undertaken which investigates the failures of corporate governance and the ensuing problems which arise and this could be adapted to a consideration of our concern with the relationship between corporate governance and sustainability. We argue however that this approach – akin to Popper's (1959)

المنارة للاستشارات
www.mana

falsification theory – is not an appropriate methodology for this research, rather our starting assumption is that effective corporate governance will be largely unnoticed and the relationship assumed in our hypotheses will be manifest in examples of good practice rather than in the exceptional instances of poor practice. Our investigation therefore is based on exploring corporate governance in all the FTSE100 companies – which are generally accepted to be examples of good practice in this respect. Our sample therefore consists of the 100 largest firms quoted on the London Stock Exchange[8] – so, whatever their country of domicile, they all comply with The Combined Code on Corporate Governance, which came into effect in 2003[9]. these firms obviously come from a variety of industrial sectors but in this analysis it is size rather than sector which has led to our choice of companies.

The further assumption we make in conducting this research is that the reporting of corporate activity through the corporate web site is more complete that that contained in the statutory reporting. In other words, everything which can be found in the statutory reporting can also be found on the corporate web site, along with much more information. Our methodology therefore is based on investigating the information about the various aspects of corporate governance with which we are concerned by an evaluation of these corporate web sites. And our analysis is primarily qualitative with some simple descriptive statistics.

Relating sustainability with governance: the evidence

Although there is a clear link between good corporate governance and all aspects of a firm's performance, and organisation, we have not dwelt upon any particular aspect of governance. Instead we have accepted the firms' own definitions of the concept and have focused our attention on what they say about governance and its relationship to sustainability. Our research shows that this relationship is not at all clearly understood by many firms. For example, BP provide a good illustration of the confusion between sustainability and continued existence, stating in their 2006 report (BP, 2007):

> That is why we care about the sustainability of our activities and why, throughout the company, we work to ensure that the things we do and the way we do them are genuinely sustainable.

While later in the same report (on the same page even) is stated:

> BP has now sustained itself as a company for almost 100 years through periods of dramatic economic, social, political, technological and commercial change.

Of the firms in the FTSE100 it is clear that a majority do not understand this relationship – or do not think that it is important. Thus 30 per cent of the firms consider that their governance is adequate because they comply with The Combined Code on Corporate Governance. Of course all firms reporting on the London Stock Exchange are required to comply with this code, and so these firms are doing no more than meeting their regulatory obligations, as the other 70 per cent also do in complying with the code. A further 24 per cent regard corporate governance as simply a part of investor relationships and do nothing more regarding such governance except to identify that it is important investors/potential investors and to flag up that they have such governance policies. In effect therefore 54 per cent of these firms merely consider governance in terms of issues mentioned within the Combined Code.

المنارة للاستشارات
www.mana

This therefore leaves only 46 per cent who recognise that there is a relationship between governance and other aspects of corporate activity. Thus 27 per cent of firms recognise that there is a clear link between governance and corporate social responsibility[10] and make efforts to link the two. Often this is no more than making a claim that good governance is a part of their CSR policy as well as a part of their relationship with shareholders. And of course there are a lot of vague comments about firms doing their best[11] to behave sustainably, without any precise indications of what is meant by such a claim. Some firms do however go further then this and make clear links to specific action. Thus 5 per cent recognise the relationship to financial sustainability through an understanding of the relationship between governance and risk. Similarly 2 per cent relate governance to community relations; 4 per cent to ethical behaviour towards employees; 3 per cent to environmental policy and behaviour; and 1 per cent to their commitment to sustainable growth. Despite these seemingly dispiritingly small numbers though it is encouraging that 7 per cent of firms recognise the relationship to all the aspects of sustainability which we have identified and clearly spell out this relationship in their corporate activity.

An example of the most comprehensive statements is from BAT[12] which states:

> We are committed to the principles of sustainable development – development that meets the needs of the present, without compromising the ability of future generations to meet their own needs.
>
> Sustainable development came to the fore in the 1980s, when the United Nations examined some of the world's largest problems, including poverty, overpopulation, famine, drought, deforestation and climate change. It gained important impetus when the 1992 Earth Summit in Rio de Janeiro approved the Agenda 21 framework, which emphasised improving and sustaining quality of life, especially for the world's poor, without destroying the environment.

Similarly Shell[13] state:

> The companies of the Royal Dutch/Shell Group have an integrated vision of sustainability built on three pillars: economic progress, social development and environmental improvement. The Shell commitment to sustainable development is being incorporated into strategic planning and the daily conduct of the business.

This can all be summarised in Table I.

Type of relationship recognised/action undertaken/commitment made	Firms recognising the relationship (%)
Comply with code only	30
Related to investor relations only	24
Related to CSR policy	27
Community relations	2
Ethics	4
Environmental policy	3
Sustainable growth	1
Risk	5
Full connection to sustainability	7

Table I.

المنارة للاستشارات

www.man

It is tempting to try to undertake some analysis of sectoral differences in the approaches taken concerning governance practice, and from the evidence in the research there certainly are some differences. But we need to be realistic and state that, as we have only looked at the FTSE 100, our sample is too small (and probably unrepresentative) to undertake some reliable analysis of this nature. We therefore flag up this as further analysis to be undertaken in our project. So we simply turn to a consideration of what conclusions we can draw from this research.

Conclusions

With respect to the hypotheses proposed then the sort of research which we have undertaken has been qualitative and therefore has not been sufficient to either prove or disprove these hypotheses. So it is not possible to say that good corporate governance will address these issues. What it is possible to state though is that a firm which has a more complete understanding of both sustainability and of corporate governance will address these issues more completely. By implication a more complete understanding of the inter-relationships will lead to better corporate governance, thereby implying the validity of these hypotheses.

The other tentative conclusion from this research is concerned with the extent of disclosure manifest through the reporting of such things as corporate governance and sustainability, and is more in the nature of a prognosis. Crowther (2000) traces an archaeology of corporate reporting which shows that, over time, the amount of information provided – first to shareholders, then to potential investors (Gilmore and Willmott, 1992), then to other stakeholders – has gradually increased throughout the last century, as firms recognised the benefit in providing increased disclosure. Similarly the amount of disclosure regarding CSR activity has been increasing rapidly over the last decade, as firms have recognised the commercial benefits of increased transparency. Therefore it is reasonable to argue – as we are doing – that the amount of information regarding the relationship between governance and sustainability will also increase, not just as firms gain a clearer understanding of that relationship but also as they understand the benefits of greater disclosure in this respect. Thus we conclude that the validity of our hypotheses will become more apparent over time.

Notes

1. Although philosophers such as Robert Owen were expounding those views more than a century earlier.
2. The benefits of incorporating stakeholders into a model of performance measurement and accountability have however been extensively criticised. See for example Freedman and Reed (1983), Sternberg (1997, 1998) and Hutton (1997) for details of this ongoing discourse.
3. Similarly once an animal or plant species becomes extinct then the benefits of that species to the environment can no longer be accrued. In view of the fact that many pharmaceuticals are currently being developed from plant species still being discovered this may be significant for the future.
4. Of course the fact that many researchers do not have the skills to undertake such detailed financial analysis, even if they considered it to be important, might be a significant reason for this.
5. Financial reporting is of course premised upon the continuing of the company – the going concern principle.

المنارة للاستشارات
www.man

6. See for example Mishan (1967), Ormerod (1994) and Crowther *et al.* (1998). This can be equated to the concept of utility from the discourse of classical liberalism.
7. An example is the Cadbury Report.
8. Data were collected from the company web sites during 2007 and therefore based upon what was stated in the latest annual report, produced in 2006 or 2007.
9. The Code was based upon the previous Cadbury and Greenbury Reports and was subsequently revised during 2006. it deals with such issues as Board composition and remuneration, relationship with shareholders and investors, composition of the Audit Committee etc.. we have therefore not considered these aspects of governance in our analysis.
10. The terms used include corporate social responsibility and corporate responsibility.
11. Often the phrase used includes something like "within reason" or "in the light of circumstance" as a way of obviating any real commitment to any particular sort of action.
12. Available at: www.bat.com/oneweb/sites/uk__3mnfen.nsf/vwPagesWebLive/53D459A7C9548DC480256BF4000331DD?opendocument&DTC = &SID = (accessed 21 August 2007).
13. Available at: www.shell.com/home/content/mediaen/news_and_library/speeches/1998/shellandsustain_10171340.html (accessed 21 August 2007).

References

Ackerman, R.W. (1975), *The Social Challenge to Business*, Harvard University Press, Cambridge, MA.

Agrawal, A. and Knoeber, C.R. (1996), "Firm performance and mechanisms to control agency problems between managers and shareholders", *Journal of Financial and Quantitative Analysis*, Vol. 31 No. 3, pp. 377-98.

Aras, G. and Crowther, D. (2007a), "Is the global economy sustainable?", in Barber, S. (Ed.), *The Geopolitics of the City*, Forum Press, London, pp. 165-94.

Aras, G. and Crowther, D. (2007b), "Sustainable corporate social responsibility and the value chain", in Crowther, D. and Zain, M.M. (Eds), *New Perspectives on Corporate Social Responsibility*, MARA University Press, Shah Alam, pp. 119-40.

Becht, M., Bolton, P. and Roell, A. (2002), "Corporate governance and control", working paper, ECGI, Brussels.

Beder, S. (1997), *Global Spin: The Corporate Assault on Environmentalism*, Green Books, London.

Beiner, S., Drobetz, W., Schmid, M.M. and Zimmerman, H. (2004), "An integrated framework of corporate governance and firm valuation – evidence from Switzerland", working paper No. 34/2004, European Corporate Governance Institute, Brussels.

Bhagat, S. and Black, B. (1999), "The uncertain relationship between board composition and firm performance", *The Business Lawyer*, Vol. 54 No. 3, pp. 921-63.

Bhagat, S. and Jefferis, R.H. (2002), *The Econometrics of Corporate Governance Studies*, The MIT Press, Cambridge, MA.

Boele, R., Fabig, H. and Wheeler, D. (2001), "Shell, Nigeria and the Ogoni. A study in unsustainable development: II. Corporate social responsibility and 'stakeholder management' versus a rights-based approach to sustainable development", *Sustainable Development*, Vol. 9 No. 3, pp. 121-35.

Burke, L. and Longsdon, J.M. (1996), "How corporate social responsibility pays off", *Long Range Planning*, Vol. 29 No. 4, pp. 495-502.

المنارة للاستشارات

www.mana

Bushman, R.M. and Smith, A.J. (2001), "Financial accounting information and corporate governance", *Journal of Accounting and Economics*, Vol. 32, pp. 237-333.

BP (2007), *BP Annual Review 2007*, available at: www.bp.com

Chambers, R. (1994), "The origins and practice of participatory rural appraisal", *World Development*, Vol. 22 No. 7, pp. 953-69.

Coles, J.W., McWilliams, V.B. and Sen, N. (2001), "An examination of the relationship of governance mechanisms to performance", *Journal of Management*, Vol. 7, pp. 23-50.

Cowen, S.S., Ferreri, L.B. and Parker, L.D. (1987), "The impact of corporate characteristics on social responsibility disclosure: a typology and frequency-based analysis", *Accounting, Organizations and Society*, Vol. 12 No. 2, pp. 111-22.

Cox, P., Brammer, S. and Millington, A. (2004), "An empirical examination of institutional investor preferences for corporate social performance", *Journal of Business Ethics*, Vol. 52, pp. 27-43.

Crowther, D. (2000), "Corporate reporting, stakeholders and the internet: mapping the new corporate landscape", *Urban Studies*, Vol. 37 No. 10, pp. 1837-48.

Crowther, D. (2002), *A Social Critique of Corporate Reporting*, Ashgate, Aldershot.

Crowther, D., Davies, M. and Cooper, S. (1998), "Evaluating corporate performance: a critique of economic value added", *Journal of Applied Accounting Research*, Vol. 4 No. 3, pp. 2-34.

Dalton, D.R., Daily, C.M., Ellstrand, A.E. and Johnson, J.L. (1998), "Meta-analytic reviews of board composition, leadership structure, and financial performance", *Strategic Management Journal*, Vol. 19 No. 3, pp. 269-90.

Demsetz, H. and Villalonga, B. (2002), "Ownership structure and corporate performance", *Journal of Corporate Finance*, Vol. 7, pp. 209-33.

Durnev, A. and Kim, E.H. (2005), "To steal or not to steal: firm attributes, legal environment, and valuation", *Journal of Finance*, Vol. 60 No. 3, pp. 1461-93.

Dyllick, T. and Hockerts, K. (2002), "Beyond the business case for corporate sustainability", *Business Strategy & the Environment*, Vol. 11, pp. 130-41.

Freedman, R.E. and Reed, D.L. (1983), "Stockholders and stakeholders: a new perspective on corporate governance", *California Management Review*, Vol. 25 No. 3, pp. 88-106.

Gilmore, C.G. and Willmott, H. (1992), "Company law and financial reporting: a sociological history of the UK experience", in Bromwich, M. and Hopwood, A. (Eds), *Accounting and the Law*, Prentice-Hall, Hemel Hempstead, pp. 159-91.

Gompers, P.A., Ishii, J.L. and Metrick, A. (2001), *"Corporate governance and equity prices"*, working paper 8449, National Bureau of Economic Research, Cambridge, MA.

Gray, R. (1992), "Accounting and environmentalism: an exploration of the challenge of gently accounting for accountability, transparency and sustainability", *Accounting, Organizations & Society*, Vol. 17 No. 5, pp. 399-425.

Gray, R., Owen, D. and Maunders, K. (1987), *Corporate Social Reporting: Accounting and Accountability*, Prentice-Hall, London.

Gray, R., Javad, M., Power, D.M. and Sinclair, C.D. (2001), "Social and environmental disclosures and corporate characteristics: a research note and extension", *Journal of Business, Finance and Accounting*, Vol. 28 Nos 3/4, pp. 327-56.

Gray, R.H. and Bebbington, K.J. (2001), *Accounting for the Environment*, Sage, London.

Hart, S.L. (1997), "Beyond greening: strategies for a sustainable world", *Harvard Business Review*, Vol. 75 No. 1, pp. 67-76.

المنارة للاستشارات

www.mana

Hart, S.L. and Milstein, M.B. (2003), "Creating sustainable value", *Academy of Management Executive*, Vol. 17 No. 2, pp. 56-67.

Hawken, P. (1993), *The Ecology of Commerce*, Weidenfeld & Nicholson, London.

Heracleous, L. (2001), "What is the impact of corporate governance on organizational performance?", *Corporate Governance: An International Review*, Vol. 9 No. 3, pp. 165-73.

Hermalin, B.E. (2005), "Trends in corporate governance", *Journal of Finance*, Vol. 60 No. 5, pp. 2351-84.

Herremans, I.M., Akathaparn, P. and McInnes, M. (1992), "An investigation of corporate social responsibility, reputation and economic performance", *Accounting, Organizations & Society,*, Vol. 18 Nos 7/8, pp. 587-604.

Hutton, W. (1997), *Stakeholding and its Critics*, IEA Health and Welfare Unit, London.

Johnson, R.A. and Greening, D.W. (1999), "The effects of corporate governance and institutional ownership types on corporate social performance", *Academy of Management Journal*, Vol. 42 No. 5, pp. 564-76.

Joyner, B.E. and Payne, D. (2002), "Evolution and implementation: a study of values, business ethics and corporate social responsibility", *Journal of Business Ethics*, Vol. 41, pp. 297-311.

Knox, S. and Maklan, S. (2004), "Corporate social responsibility: moving beyond investment towards measuring outcomes", *European Management Journal*, Vol. 22 No. 5, pp. 508-16.

McDonald, D. and Puxty, A.G. (1979), "An inducement-contribution approach to corporate financial reporting", *Accounting, Organizations & Society*, Vol. 4 Nos 1/2, pp. 53-65.

Marsden, C. (2000), "The new corporate citizenship of big business: part of the solution to sustainability", *Business & Society Review*, Vol. 105 No. 1, pp. 9-25.

Mayhew, N. (1997), "Fading to grey: the use and abuse of corporate executives' 'representational power'", in Welford, R. (Ed.), *Hijacking Environmentalism: Corporate Response to Sustainable Development*, Earthscan, London, pp. 63-95.

Michael, B. and Gross, R. (2004), "Running business like a government in the new economy: lessons for organizational design and corporate governance", *Corporate Governance*, Vol. 4 No. 3, pp. 32-46.

Millstein, I.M. and MacAvoy, P.W. (1998), "The active board of directors and performance of the large publicly traded corporation", *Columbia Law Review*, Vol. 98 No. 5, pp. 1283-322.

Mishan, E.J. (1967), *The Costs of Economic Growth*, Pelican, Harmondsworth.

Ormerod, P. (1994), *The Death of Economics*, Faber and Faber, London.

Patterson, J. (2002), "The Patterson Report: corporate governance and corporate performance research", available at: www.thecorporatelibrary.com/study/patterson.asp

Popper, K.R. (1959), *The Logic of Scientific Discovery*, Hutchinson, London.

Pretty, J.N. (1995), "Participatory learning for sustainable agriculture", *World Development*, Vol. 23 No. 8, pp. 1247-63.

Reed, R. and DeFillippi, R.J. (1990), "Causal ambiguity, barriers to imitation, and sustainable competitive advantage", *Academy of Management Review*, Vol. 15 No. 1, pp. 88-102.

Romano, R. (2004), "The Sarbanes-Oxley Act and the making of quack corporate governance", working paper no. 52/2004, European Corporate Governance Institute, Brussels.

Rubenstein, D.B. (1992), "Bridging the gap between green accounting and black ink", *Accounting Organizations & Society*, Vol. 17 No. 5, pp. 501-8.

Schmidheiny, S. (1992), *Changing Course*, MIT Press, New York, NY.

المنارة للاستشارات

www.mana

Sethi, S.P. (2002), "Standards for corporate conduct in the international arena: challenges and opportunities for multinational corporations", *Business and Society Review*, Vol. 107 No. 1, pp. 20-40.

Shleifer, A. and Vishny, R.W. (1997), "A survey of corporate governance", *Journal of Finance*, Vol. 52 No. 2, pp. 737-83.

Spangenberg, J.H. (2004), "Reconciling sustainability and growth: criteria, indicators, policy", *Sustainable Development*, Vol. 12, pp. 76-84.

Sternberg, E. (1997), "The defects of stakeholder theory", *Corporate Governance: An International Review*, Vol. 6 No. 3, pp. 151-63.

Sternberg, E. (1998), *Corporate Governance: Accountability in the Marketplace*, IEA, London.

Tinker, T. (1988), "Panglossian accounting theories: the science of apologising in style", *Accounting, Organizations & Society*, Vol. 13 No. 2, pp. 165-89.

Van den Berghe, L. (2001), "Beyond corporate governance", *European Business Forum*, Vol. 5, Spring.

van Marrewijk, M. and Werre, M. (2003), "Multiple levels of corporate sustainability", *Journal of Business Ethics*, Vol. 44 Nos 2/3, pp. 107-19.

Waddock, S.A. and Graves, S.B. (1997), "The corporate social performance-financial performance link", *Strategic Management Journal*, Vol. 18 No. 4, pp. 303-19.

WCED (World Commission on Environment and Development) (1987), *Our Common Future (The Brundtland Report)*, Oxford University Press, Oxford.

Zwetsloot, G.I.J.M. (2003), "From management systems to corporate social responsibility", *Journal of Business Ethics*, Vol. 44 Nos 2/3, pp. 201-7.

About the authors

Güler Aras is Professor of Finance and Director of the Graduate School at the Yildiz Technical University (Istanbul/Turkey). She is the author of six books and has contributed over 100 articles to academic, business and professional journals and magazines and to edited book collections. She has also spoken extensively at conferences and seminars and has acted as a consultant to a wide range of government and commercial organisations. Her research is into financial economy and financial markets, with particular emphasis on the relationship between corporate social responsibility and a firm's financial performance.

David Crowther is Professor of Corporate Social Responsibility, De Montfort University, UK. He is the author or editor of 20 books and has also contributed several hundred articles to academic, business and professional journals and to edited book collections. He has also spoken widely at conferences and seminars and acted as a consultant to a wide range of government, professional and commercial organisations. His research is into corporate social responsibility with a particular emphasis on the relationship between social, environmental and financial performance. David Crowther is the corresponding author and can be contacted at: dcrowther@dmu.ac.uk

Their joint research is into factors affecting corporate sustainability.

To purchase reprints of this article please e-mail: **reprints@emeraldinsight.com**
Or visit our web site for further details: **www.emeraldinsight.com/reprints**

المنارة للاستشارات

www.mana

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

المنارة للاستشارات

www.manaraa.com