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Research series

Emerging themes of corporate governance and firm performance

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Contents

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Executive summary

Corporate governance, and the link between governance and performance, remains a topical focus for public policy makers, academics and commentators. Despite an extensive and growing research effort, however, the link between corporate governance and firm performance remains elusive. The Governance Leadership Centre asked the University of Sydney Business School to review the latest trends and themes in this important area of governance research.

In collaboration with the Australian Institute of Company Directors' Governance Leadership Centre, the University of Sydney Business School has conducted a structured literature review to assess the major learning outcomes arising from corporate governance research carried out over the past five years, with a focus on linkages between corporate governance practices and firm financial performance.

The results of this review are summarised in this report, along with the assessment of implications for policy makers and suggestions for future research directions.

Our review identified 305 research papers across six leading academic journals that specialise in either corporate governance journals (for example, 'Corporate Governance: An International Review') or relevant management studies (for example, 'Harvard Business Review') .

The papers cover the period 2010 to 2015. These papers were analysed using both an deductive and inductive lens to identify nine key corporate governance research themes:

1. ownership structure;
2. the role of executives (including leadership and remuneration);
3. the role of stakeholders (including shareholder activism);
4. corporate governance performance and effectiveness;
5. board operation;
6. social and environmental responsibility;
7. board composition (including capability and diversity);
8. company sustainability, risk and reputation; and
9. national systems of corporate governance.

The key findings of our review are set out below.

Table 1: Key findings

Results are inconclusive	Current research on links between governance practices and firm performance is inconclusive. For example the influence of executive leadership style on performance indicates links with ownership structure (for example, where venture capital is involved) but do not adequately explain the influence of divergent or changing attitude to managing risk over time.
Little practical insights	Research outcomes are contradictory and difficult to interpret from a practice perspective. This is partly the result of the targeting of academic rather than practitioner audiences in publishing corporate governance research.
More holistic view needed	Most researchers treat corporate governance practices as independent of each other, rather than complementary. The results of the research are, at best, partial explanations for corporate governance outcomes. Limitations in publically available data often used in academic research is a contributing factor here.
Quantitative studies dominate	A heavy reliance on economics-focused theory and quantitative modelling of publically available data with limited exploration of in-depth qualitative examination of corporate governance processes, practices and social relations.
Practice implications identified in academic journals	The insights for corporate governance practice arising from this research are often limited to normative statements rather than deep explanations or causal relationships.

Despite encouragement by academic journal editors to identify the implications for corporate governance practitioners, it is apparent that very little of the research findings can be adopted in practice.

The economic focus of the theoretical framework, the use of aggregated data that is often required as proxies for observed practice and a focus on 'one-size-fits-all' solutions to corporate governance concerns emerge as key impediments. In addition, there appears to be a material lag between emerging governance issues and the research response in academic journals.

As a result, we identify a need for research that focuses on the identification and investigation of best practices that are relevant to complex and emerging corporate governance concerns using approaches that are both critical and practice-focused.

Future directions

Corporate governance research needs to look beyond a list of ideal characteristics or results to consider, amongst other explanations, corporate governance processes and practices. We also reiterate the need for very specific research questions and contexts. For example, in the executive theme, this would include identification and selection of CEO successors. In the social responsibility stream, the role of ethical investment standards (such as GRI) on strategy and corporate governance practice may be of interest.

Research questions and methodology

Acknowledging the importance of reliability and validity in conducting this type of interpretive research (Massaro et al., 2016 p. 771), we adopted a structured approach on the basis that reviews of the type adopted here provide "an empirical grounding that avoids missing seminal articles and reduces researcher bias" Tranfield et al., (2003 p. 209). This helped establish how empirical findings can enrich understanding of the current corporate governance practices. Reflection on this aim resulted in four key research questions:

- How is research for inquiring into corporate governance research developing?
- What is the focus and critique of corporate governance research?
- What are the implications for practitioners?
- What is future for corporate governance research?

An initial list of potentially relevant journals that address these questions was identified from scholar citations databases sourcing corporate governance and management journals based on Google Scholar's h5-index ranking of 'Business, Economics and Management' journals.

This approach was adopted to help ensure sourcing of articles from recognised and highly cited outlets for corporate governance research. Next, exclusion criteria were applied based on a search of the Web of Science academic database using the keywords: Corporate Governance, Governance, Boards/ Boards of Directors, Shareholders, CEO Pay/Remuneration and Corporate Social Responsibility. Only journals with at least 5 articles that contained these keywords were included, the remainder was excluded. This resulted in a list of six journals, outlined in Table 2.

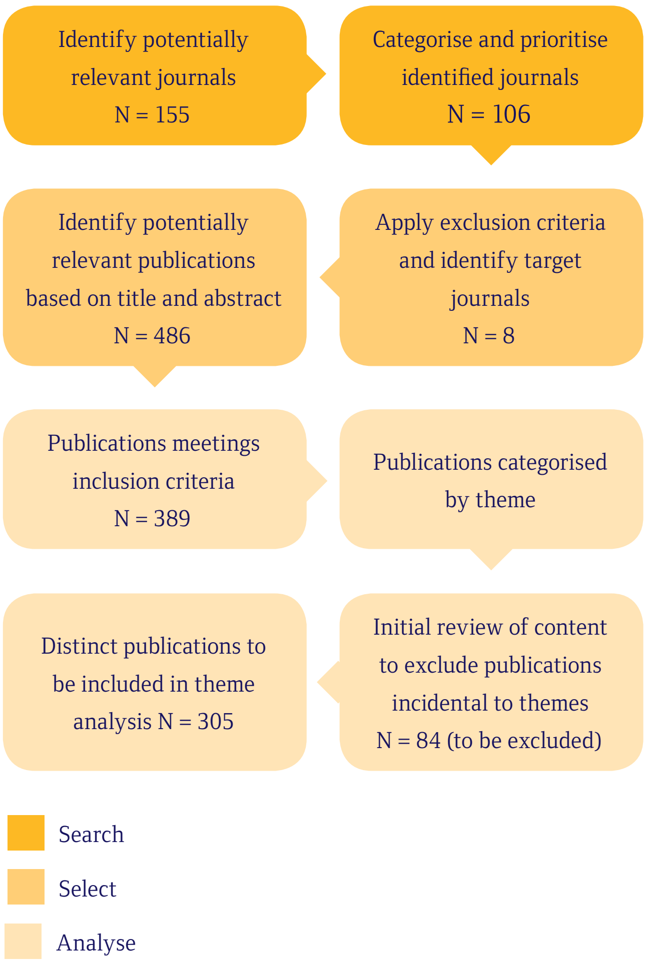
Table 2: Journals selected for review

Journal name	Discipline
Corporate Governance: an International Perspective	Corporate Governance.
The Economics of Governance	Corporate Governance.
Governance: An International Journal of Policy, Administration, and Institutions	Corporate Governance.
Harvard Business Review	Management
Academy of Management Journal	Management
Academy of Management Review	Management

After an initial search of these leading journals based on the keywords listed earlier, we identified 486 potentially relevant articles. Further exclusion criteria were applied to help ensure greater relevance to the research questions applicable to this literature review. For example, considering the recent growth in corporate governance research, we used a raw citation index (CI) to include newer articles that are already being cited, having minimum five citations from 2015, ten citations from 2014, and fifteen citations from 2010-2013.

Therefore, this study includes the newest and most recognized leading corporate governance research in the data set. This resulted in reducing the list of identified corporate governance articles to 305. Figure 1 summarises the results of the above process, leading to the analysis of the identified articles (adapted from Laursen and Svejvig, 2016, p.740).

Figure 1: Summary of articles identified for analysis



In summary:

- Seventeen percent of the 305 identified research articles identified in this review focus specifically on links between corporate governance practice and the performance of the organisation.
- The key aspects of corporate governance practice studied in association this performance theme include primarily CEO remuneration (31 per cent); shareholder activism (29 per cent); gender diversity (13 per cent); and social responsibility (9 per cent).
- Many of the 234 other articles analysed addressed company performance albeit largely as a secondary or indirect effect of corporate governance practice. In total, secondary performance effects are studied in 83 other articles (27per cent of the total analysed). Given the different focus of these articles, outcomes are discussed separately.
- Further, we highlight selected papers only for this discussion. Given the large number of papers reviewed and the inconclusiveness of the outcomes would render discussion on each individual paper cumbersome and not add to our overall conclusions and recommendations. A copy of the full research paper is available from Sydney University Business School.

Governance effectiveness and financial performance

Overall, research over the period 2010 to 2015 into direct links between corporate governance practice and organisational financial performance has identified mixed and contradictory results. This is consistent with prior academic literature reviews on this topic.

In an early paper in the sample examining the link between diversity of corporate boards and the financial performance of firms, Carter et al. (2010, p.400) report on prior empirical research. They identify nine empirical studies that directly test for a relationship between board diversity and financial performance, and find mixed results. In testing specifically for gender diversity and financial performance:

- two investigations find a positive relationship,
- three find no relationship and
- two find a negative relationship.

They report that the statistical methods, data and time periods investigated vary greatly such that the results are not easily comparable, with the overall meaning of the body of research resting on the efficacy of the research methodologies employed.

Further, in testing for a link between diversity comprising both women and ethnic minorities on boards and financial performance, one investigation finds a positive relationship while another finds no relationship.

The paper itself investigates for a relationship between both gender and ethnic diversity and the financial performance of firms. For a sample of major US companies, they do not find a significant relationship between the gender or ethnic diversity of the board, or important board committees, and financial performance. Appendix 1 provides a summary of the article.

Bozec and Bozec (2012) present a review of international studies that have used corporate governance indexes (as opposed to single or multiple governance attributes such as board independence or diversity) to test the link between firm- level governance and performance. Their analysis of 47 reviews published in academic journals between 2001 and 2011, identifies that

> *"Overall, a clear positive relation is found between governance ratings and performance in Europe and in emerging economies, whereas studies conducted in the US and Canada have generated mixed evidence" (ibid).*

Amongst the findings of this research, positive results were largely explained as 'methodological shortcomings' including but not limited to measurement errors and the effects of subjectivity in the selection of ratings. Hence, the current state of both academic and commercially developed corporate governance indices can be seen in terms of the conclusion:

> *"Our review does not show a systematic relation between these ratings and firm performance." (ibid)*

The article proposes four specific areas of research to address given the identified methodological shortcomings, including the development of separate indices suited to specific national corporate governance contexts and statistical testing of indices subsequently derived.

Our broader review of the research literature into links between organisation performance and corporate governance practices reiterates this need for specific research that addresses different corporate contexts and known methodological concerns.

We illustrate this point below with reference to two studies that examine separate but related aspects of performance, published over the period 2012-2014.

A. García Castro, R., Aguilera, R.V. and Ariño, M.A. 2013. Bundles of firm corporate governance practices: A fuzzy set analysis. *Corporate Governance: An International Review*, 21(4): 390-407.

The first publication, García-Castro et al., (2013) explores how combinations of firm-level corporate governance practices embedded in different national governance systems lead to high firm financial performance. Appendix 2 provides an overview of the paper.

The authors highlight two theoretical voids that might explain why current research exploring governance practices and firm performance is inconclusive. First, they find that existing research tends to neglect different institutional environments. Second, most conceptually and empirically modelled studies treat corporate governance practices as independent from each other, rather than complementary (and potentially costly to adopt).

The article draws on a complementary-based approach and find that governance practices combined into different bundles results in high firm financial performance. For example, their empirical findings uncover each of the eight solutions reported in the article require at least two corporate governance practices in order to achieve high performance:

> *"For example, although previous research suggests that board independence and board of directors' information disclosure are highly complementary in outsider environments (configuration 4A), our results indicate that the two variables do not seem to generate complementarity with high employee loyalty. Exploring the reasons behind this finding may be a fruitful avenue of further research." (ibid)*

B. Luo, Y. and Salterio, S.E., 2014. Governance quality in a "comply or explain" governance disclosure regime. *Corporate Governance: An International Review*, 22(6): 460-481.

In a detailed examination of a specific corporate governance policy practice, the second article by Luo and Salterio (2014) focuses on whether the flexibility to adopt alternative governance practices in a 'comply or explain' regime (for which most countries have adopted for the regulation of corporate governance practices for public companies) results in more effective board monitoring, which in turn, leads to better firm performance and higher firm value.

The authors hypothesise that they 'comply or explain' regime provides firms the ability to reduce their agency costs by 'tailoring their governance processes to their firm specific-circumstances' (p.475). For a sample of companies operating under the Canadian regime for corporate governance disclosure, the authors construct a 'board score' measure based on the local code's 47 best practices, and find that their measure is strongly and positively associated with higher firm value and return on shareholder investment.

The substantive connection between this and other research on this topic is the importance of firm contingencies in relation to the choice of performance measurement and, in particular, the importance of a flexible approach to simultaneously encourage good corporate governance practice whilst also supporting board and executive decision-making that facilitates high long term company performance.

Governance themes and links to firm performance

In addition to research that directly investigates direct links between corporate governance practices and firm financial performance, our review of the recent literature identifies eight further themes that link corporate governance to firm performance in other ways. These are presented in Table 2, together with summary information indicating the degree of performance association.

Table 3: Identified Themes linking Corporate Governance and Performance

Theme	% of Total Papers	Performance (% Theme)	Use of Economic Theory (% Theme)	Positive Association (% performance)	Negative Association (% performance)	Uncertain/mixed Association (% performance)	No Association (% performance)
Ownership Structure (including family firms and Not-for-Profits)	23	19	28	23	9	55	14
Executives (including leadership and remuneration)	22	31	67	17	8	67	8
Stakeholders (including shareholder activism)	19	30	59	9	0	64	27
Board Operation and Board Practices	16	29	63	36	9	55	0
Social and Environmental Responsibility	11	19	55	0	20	80	0
Board Composition (including capability and diversity)	11	34	69	25	9	50	16
Company Sustainability, Risk and Reputation	8	21	49	25	0	75	0
National Systems/Policy	4	18	100	0	0	100	0

Table 3 highlights the highly mixed results in terms of the association of each particular corporate governance theme and the performance of entities selected for the studies (where performance is identified as the key variable in the research).

The insights for corporate governance practice from this research tend to be limited to general normative statements rather than deep explanations or causal relationships. One example is Zeitoun [1] and Pamini [2] (2015), researchers from the School of Business at the University of Warwick [3] and the Swiss Federal Institute of Technology (ETH) Zurich respectively. [4]

Despite a focus on examining the "potentially competing interests of different stakeholders" (p. 490), the implications of this research for practitioners is expressed in the following terms:

> *"For practitioners, the analysis highlights the importance of capitalizing on the strengths of alternative corporate governance models. A key task of corporate directors and managers is to create appropriate expectations among stakeholders concerning future corporate policies and decisions. These expectations are different in firms that approximate the shareholder primacy model compared with those that more closely follow the stakeholder model. By paying attention to managerial style, boards can ensure that the selected top executives are in a good position to fulfill these expectations and thereby contribute to the firm's prosperity."(ibid, p.501)*

The corporate governance literature aimed specifically at practitioner audiences also recognises the linkages between ownership structure and leadership style, as well as corporate governance performance in totality. In the section that follows, we focus on general research findings related to ownership structure and performance, and corporate social responsibility and performance.

Ownership Structure

Of the 71 identified articles that focus on the effect of ownership structure on corporate governance and performance, 40% specifically focus on listed firms that have significant family ownership or influence and 28% adopt an Agency Theory perspective. The results are mixed and tend have a strong focus on family firms (concentrated ownership) that have limited applicability to Australia where ownership tends to be less concentrated.

The pattern of limited insights for corporate governance practice highlighted above extends to specialised topics on ownership structure which are of policy and practitioner interest in Australia. An example is the quantitative study by Farag et al., (2014 p.100), summarised in Appendix 3. Based on data found in online annual reports and a number of venture capital databases, the authors find a positive and significant relationship between corporate governance characteristics and financial performance, leading to the following conclusion:

> *"The study offers practical implications for regulatory authorities and investors, as it highlights that venture capital funds investing in entrepreneurial companies on the AIM have a positive impact on both corporate governance and company performance, which improves after IPO admission, and also on subsequent performance."(ibid, p.100)*

1 See http://www.wbs.ac.uk/about/person/hossam-zeitoun
2 See https://www.researchgate.net/profile/Paolo_Pamini
3 Top 10 on the QS Rating; 103rd in 2015 on the Times Higher Education World University Ranking
4 Ranked 9th in 2015 on the Times Higher Education World University Ranking. Almer mater of Albert Eistein; past professor is Wolfgang Pauli

However, to illustrate the limitations of such general advice, the European Corporate Governance Institute (www.ecgi.org), in its Report on the findings of the 17th European Corporate Governance Conference states in a discussion on venture capital and crowdsourcing:

> *"While understanding of corporate governance has grown over the past decade, there is not a one-size-fits-all system of corporate governance that suits funds…..The main difference is that in an early-stage situation, investors have an acceptance and expectation for failure. The higher you go up the value chain, however, the appetite for failure reduces dramatically." (p.8)*

One of the key rationale supporting this call for diversity is indicated earlier in the same report, based on research by a noted corporate governance and company law academic at the Harvard Law School, focusing on executive remuneration, Professor Jesse Fried:

> *"Over time, the VCs' power in the start-up tends to increase. As the firm raises additional financing, and new VCs invest, the VCs as a group acquire more seats on the board."*

However, as Krause and Bruton (2014) identify:

> *"It seems evident to us that traditional agency theory requires some revision before scholars can justifiably apply it to board processes in entrepreneurial ventures." (ibid, p.113)*

A detailed analysis of corporate governance diversity in response to the influence of ownership structure remains a work-in-progress in the academic literature.

Social Responsibility

A total of 36 (11 per cent) of the identified articles focus on social or environmental responsibility. Of these, 19 per cent focus on links between social responsibility and company performance, 17 per cent on measurement and 6 per cent on role of investors.

Whilst research on this theme has a rich history within the business literature (for example, Battaglia et al., 2014), the results, again, are also mixed (Chegut, Schenk and Scholtens 2011). Notably, even the definition of key concepts are contested and unclear (Thomson and Bebbington, 2013). Despite these concerns, reporting has been championed as a mechanism by which corporations can be held to account for their social and environmental impact (Staden et al., 2011). There is, however, substantial scepticism of the data provided by corporations and the third party metrics that subsequently rely on it (for example, Baker and Roberts 2011).

Given this status, case studies are common with an example being the HBR paper on the lessons learned by Nike in addressing issues with social responsibility in its contract factories (Paine, 2014). Here, the establishment and operations of a social responsibility board subcommittee at Nike is explored in the form of a dialog with its chair from 2001 to 2011. The practitioner implications are highlighted in an interview structure, essentially fulfilling a similar role as other subcommittees such as Audit or Risk "through its focus, expertise, and sustained attention."

In another example from this literature, a paper by Ntim and Soobaroyen (2013) investigates how CSR practices are affected by the quality of a firm's internal governance mechanisms, as measured by a Corporate Governance disclosure index; ownership variables (government ownership, block ownership, and institutional ownership); and board characteristics (board size, independent directors, and board diversity). Their results indicate that CSR practices are low in corporations with concentrated ownership and institutional ownership, but high in corporations with high government ownership, larger boards, diverse boards, and more independent boards. Further, they provide evidence on how and why corporate governance might strengthen the link between firm financial performance and CSR. A summary of the paper is provided in Appendix 4.

Discussion

We have identified and explored nine distinct yet, in some ways, overlapping research themes that emerge in the academic corporate governance literature.

Indicative of the range of findings and observations, analysis of articles that are identified within the theme of Leadership and Remuneration demonstrates a common characteristic of heavy reliance on economics-focused theory and quantitative modelling of publically available data, with limited exploration of corporate governance processes.

The implications of this research for practitioners is that the results are either contradictory or difficult to interpret. In either situation, the practical application of this research is, at best, uncertain. This appears to hold even for articles with acknowledged reputations for research outcomes that focus on practitioner concerns, as an example below illustrates.

For other specific corporate governance themes, such as shareholder activism, there is an extensive academic literature with substantive empirical findings, but again, the research conclusions are mixed and contradictory.

We have illustrated this phenomenon by comparing separate studies and find that even where articles provide insights into the theme, there is limited understanding of the practices, processes and behaviours that influence such outcomes. For example, in the board operations/practice theme, even where board activities are observed, the practice implications are often secondary to theoretical discussion, being of more academic interest. In these articles, the learning for practitioners is limited to general statements of the obvious.

To illustrate this issue, a paper by Machold and Farquhar (2013) conducts a longitudinal field study into patterns of board tasks over time and the conditions under which they evolve. Their paper shows how boards might better structure their activities to make better use of meeting time, and also how board evaluations may benefit by combining observer accounts of what happens inside the boardroom.

While the paper provides some insights, it can be claimed that a rich variety of board tasks and director behaviours are not explored for their revelatory potential, in or outside of the board meetings. For example, the study cites prior research to the effect that “a substantial amount of board work and associated decision making takes place during the board meeting” (p.161). This ignores the political nature of board decision-making (Garriga and Melé, 2004) by assuming that there is little contact between individual board members. Further, it reflects the focus of academic researchers as ‘dispassionate’ observers rather than acknowledging the influence of intrinsic biases of prior researcher experience and the academic process (Modell, 2009 p. 211).

Machold and Farquhar (2013) also give only limited attention or discussion to the contextual differences between the organisations studied namely, not for profit, public and private company respectively. This limited acknowledgement of organisational context seems to occur despite the prior research experience of the lead author who has, for example, investigated the effect of leadership behaviours and processes on improved corporate governance and, in particular, board engagement with company strategy for small firms (Machold et al., 2011). That study was based on survey data from 140 small firms in Norway, finding, for example, a significant statistical correlation between board member’s knowledge and board strategy involvement except where a process-oriented boardroom culture is present (p.378).

In such cases, board development programs are useful to facilitate personal working relationships between board members, allowing them to get to know each other and thereby enhance the work of the board as a group.

In terms of theory, traditional economics-inspired corporate governance theories such as agency and resource-dependency perspectives provide insights into the results of corporate governance processes, but do not explain how and why these results are realised. Here, a process-based theoretical lens may offer new insights into board tasks and how effectively they are performed.

Overall, the corporate governance research analysed in this literature review indicates mixed and contradictory research results. We have illustrated by comparing studies addressing separate but related aspects of corporate governance interest. Further, emergent corporate governance issues even more contradictory. An example is the evolution of global corporate governance systems where García-Castro et al., (2013) and Luo find that:

> *"There are multiple governance paths leading to high firm performance, and that these practices do not always belong to the same national governance tradition."*

In light of the mixed and contradictory results regarding the literature on corporate governance and organisation performance, we believe that corporate governance research needs to look beyond a list of ideal characteristics or results to consider, amongst other explanations, corporate governance processes and practices. We also reiterate the need for very specific research questions and contexts. For example, in the executive theme, this would include identification and selection of CEO successors.

Appendices

Appendix 1

Summary of Carter et al.(2010)

Title	The Gender and Ethnic Diversity of US Boards and Board Committees and Firm Financial Performance
Authors	Carter et al
Date	2010
Journal	Corporate Governance: An International Review, 18(5), 396-414
Theme	Board composition
Research Question	Is there a relationship between the number of women directors and the number of ethnic minority directors on boards or important board committees and financial performance?
Sample	Major US companies, 641 firms, >2500 firm years
Performance measure(s)	Return on assets Tobin's Q
Results	Positive relationship between number of women on boards and ethnic minorities and ROA, but no relationship with Tobin's Q. Same result for number of women and ethnic minorities on important board committees and these measures.
Comments	No single theory directly predicts the nature of the relationship between board diversity and financial performance. The paper adopts a multidisciplinary approach and draws on four theories to provide a theoretical basis for the hypotheses to be tested. There are Resource-Dependent Theory, Human Capital Theory, Agency Theory and Social Psychological Theory. These theories provide a solid indication that a link between board diversity and firm financial performance is a realistic possibility, noting the relationship may be positive or negative based on the theory.
Implications for policy	Their evidence implies that decisions concerning the appointment of women and ethnic minorities to corporate boards should be based on criteria other than future financial performance.

Appendix 2

Summary of Garcia-Castro et al. (2013)

Title	Bundles of Firm Corporate Governance Practices: A Fuzzy Set Analysis
Authors	Garcia-Castro, et al
Date	2013
Journal	Corporate Governance: An International Review, 21(4): 390-407
Theme	Board operation and practice; Board composition
Research Question	Do combinations of firm-level corporate governance practices embedded in different national governance systems lead to high firm performance?
Sample	363 firms from 31 countries operating in 18 different market sectors.
Performance measure(s)	ROE
Results	Find that the empirical evidence for high order complementarities among aligned corporate governance practices based on the two stylized insider and outsider models is weak in terms of financial performance. However, the results support the existence of heterogeneous bundles of corporate governance practices within and across the stylized national corporate governance models that combine in dyads, triads or higher order combinations and lead to superior financial performance.
Importance	The authors identify six key corporate governance practices which are typically combined into governance bundles: board independence, board information disclosure, remuneration disclosure, performance-related compensation, employee loyalty, and the efficient market for corporate control. They find eight configurations (casual pathways) linked to high firm performance.
Implications for policy	Demonstrates that there are multiple governance paths leading to high firm performance, and these practices do not always belong to the same national governance tradition. These findings alert to the perils of 'one size fits all' governance solutions when designing and implementing corporate governance policies.

Appendix 3

Summary of Farag, et al. (2014)

Title	Governance, Ownership Structure and Performance of Entrepreneurial IPOs in AIM Companies (Alternative Investment Market)
Authors	Farag, et al.
Date	2014
Journal	Corporate Governance: An International Review, 22(2), 100-115
Theme	Ownership Structure
Research Question	Does VC ownership positively influence corporate governance characteristics and is this linked to financial performance?
Sample	271 entrepreneurial companies admitted to the AIM during 2000-2007, UK
Performance measure(s)	Construct a corporate governance index (CGAIM50). Tobin's Q ROA
Results	A high level of VC ownership leads to better corporate governance. There is also a positive and significant relationship between CG characteristics and financial performance, suggesting VCs bring managerial know-how which helps improve performance.
Importance	Their index covers four distinct CG characteristics: board structure, board sub-committees, board independence and disclosure. Find a causal relationship between corporate governance characteristics (ie an improvement in the index) and ROA. However there is no relationship between VC ownership and ROA, but they argue that there might be an indirect relationship given high levels of VC ownership and reputation are associated with better corporate governance characteristics.
Implications for policy	Highlights that VC funds investing in entrepreneurial companies have a positive impact on both corporate governance and financial performance and this improves after IPO admission and on subsequent performance.

Appendix 4

Summary of Ntim and Soobaroyen, (2013)

Title	Corporate Governance and Performance in Socially Responsible Corporations: New Empirical Insights from a Neo-Institutional Framework
Authors	Ntim and Soobaroyen
Date	2013
Journal	Corporate Governance: An International Review, 21(5): 468-494
Theme	CSR; Board composition; Ownership structure
Research Question	Does corporate governance positively influence the relationship between CSR and financial performance?
Sample	291 non-financial firms listed on Johannesburg Stock Exchange between 2002 and 2009
Performance measure(s)	Tobin's Q ROA Total shareholder return
Results	First, better governed corporations are more predisposed to pursue a more socially responsible agenda than their poorly governed counterparts. Second, the results indicate that CSR practices are low in corporations with high block ownership and institutional ownership, but high in corporations with high government ownership, larger boards, diverse boards, and more independent boards. These findings emphasize the efficiency and legitimation effects of CSR practices. Third, a combination of CSR and corporate governance practices has a strong positive effect on financial performance.
Implications for policy	The evidence suggests that better-governed corporations are more likely to be more socially responsible with a consequential positive effect on corporate financial performance. Provides a foundation to develop a more explicit agenda of jointly pursuing corporate governance and CSR reforms, instead of merely considering CSR as a peripheral component of corporate governance or as an independent corporate activity.

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