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CORPORATE GOVERNANCE AND SUSTAINABILITY PERFORMANCE: A LITERATURE REVIEW

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Abstract: The relationship between corporate governance and sustainability performance has attracted significant attention in recent years, as organisations increasingly recognise the importance of sustainable practices in achieving long-term success. Corporate governance encompasses the systems, principles, and processes used to direct and control a company and plays a crucial role in shaping sustainability outcomes. This synthesis explores the interaction between corporate governance mechanisms and sustainability performance by leveraging a variety of scientific sources. Effective corporate governance mechanisms are essential to driving sustainability performance. These findings show that the quality of governance directly impacts an organisation's ability to implement effective sustainability initiatives. By aligning stakeholder interests with sustainability goals, organisations can create a more sustainable operational framework. In conclusion, corporate governance is an important determinant of sustainability performance. Strong governance mechanisms not only facilitate the implementation of sustainability initiatives but also increase transparency and accountability, which is essential for stakeholder trust. As organisations continue to navigate the complexities of sustainability, the integration of strong corporate governance practices will be critical to achieving long-term sustainability goals.

Keywords: corporate governance, sustainability performance.

1. Introduction

Corporate governance is a critical framework that encompasses the systems, principles, and processes by which corporations are directed and controlled. It plays a vital role in establishing a balance between the interests of various stakeholders, including shareholders, management, customers, suppliers, financiers, the government, and the community. The concept of corporate governance has evolved significantly since its inception in the 1980s, reflecting the complexities of modern business environments and the increasing demand for transparency and accountability in corporate practices (Koutoupis et al., 2018). At its core, corporate governance aims to mitigate agency problems that arise from the separation of ownership and control in corporations.

Agency theory posits that conflicts of interest can occur between shareholders (principals) and managers (agents), necessitating governance mechanisms to align their interests (Rooly, 2021). Effective corporate governance frameworks are essential for ensuring that management acts in the best interests of shareholders, thereby enhancing firm performance and investor confidence (Achim et al., 2015). This is particularly important in light of recent corporate scandals that have underscored the need

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for robust governance structures to protect stakeholders and maintain market integrity (Polo, 2007).

The development of corporate governance codes and best practices has been influenced by various factors, including globalisation, the rise of institutional investors, and the increasing complexity of corporate structures (Aguilera, 2004; Olawoyin, 2014). These codes serve as guidelines for companies to enhance their governance practices, promote transparency, and foster accountability. For instance, the OECD has played a pivotal role in establishing international standards for corporate governance, which have been adopted by many countries to improve their regulatory frameworks (Jolović & Mijatović, 2020). The "comply-or-explain" approach, which allows companies to deviate from established codes while providing justifications for such deviations, has also gained traction, promoting flexibility and adaptability in governance practices (Cankar et al., 2010).

Sustainability performance has become an increasingly critical focus for organisations as they navigate the complexities of modern business environments. It encompasses a broad range of practices and outcomes that reflect an organisation's commitment to sustainable development, integrating economic, environmental, and social dimensions into its operational framework. The concept of sustainability performance is not only about minimising negative impacts but also about creating positive contributions to society and the environment while ensuring economic viability (Wang et al., 2023) (Nicolaescu et al., 2015).

The relationship between corporate governance and sustainability performance has garnered significant attention in recent years. Effective corporate governance structures are essential for promoting sustainable practices within organisations. Research indicates that strong governance frameworks facilitate the implementation of corporate social responsibility (CSR) initiatives, which in turn enhance sustainability performance (Kachouri et al., 2021). For instance, a study found that corporate governance characteristics, such as board composition and monitoring effectiveness, play a crucial role in driving a firm's environmental and social sustainability performance across various industries (Kachouri et al., 2021).

This highlights the importance of aligning governance practices with sustainability objectives to achieve long-term success. Moreover, the integration of sustainability metrics into corporate governance is vital for measuring and managing sustainability performance effectively. The development of comprehensive sustainability performance indicators allows organisations to assess their progress towards sustainability goals and identify areas for improvement (Nicolaescu et al., 2015). As stakeholders increasingly demand transparency and accountability, the adoption of sustainability reporting practices has become essential for organisations seeking to demonstrate their commitment to sustainable development (Eccles et al., 2014).

This trend underscores the need for organisations to adopt a holistic approach to governance that encompasses sustainability considerations in decision-making processes. The impact of sustainability performance on financial outcomes has also been a subject of extensive research. Studies have shown that organisations with strong sustainability performance often experience enhanced financial performance, as they are better positioned to manage risks and capitalise on opportunities associated with sustainability (Tristante et al., 2023). This relationship suggests that sustainability performance is not merely a compliance issue but a strategic imperative that can drive competitive advantage and long-term value creation (Tjahjadi et al., 2021; Tafsir, 2021).

In conclusion, sustainability performance is a multifaceted concept that reflects an organisation's commitment to integrating economic, environmental, and social considerations into its operations. The interplay between corporate governance and sustainability performance is critical, as effective governance structures facilitate the implementation of sustainable practices and enhance overall performance. As organisations continue to face growing pressures from stakeholders, the integration of sustainability into corporate governance will be essential for achieving long-term success and resilience in an increasingly complex business landscape.

2. Method

The methodology for conducting a literature review on the topic of “Corporate Governance and Sustainability Performance” can be effectively structured using the Systematic Literature Review (SLR) approach. This method is particularly valuable for synthesising existing research, identifying gaps in the literature, and providing a comprehensive overview of the relationship between corporate governance and sustainability performance.

The SLR process typically involves several key steps that ensure a rigorous and reproducible review of the literature. The SLR method is designed to identify, evaluate, and interpret all relevant research concerning a specific research question (Triandini et al., 2019). This systematic approach allows researchers to avoid bias and ensures that the review is comprehensive and transparent.

3. Results and Discussion

1. The Role of Corporate Governance Mechanism

A significant body of research emphasises the critical role of corporate governance mechanisms, particularly the board of directors, in achieving sustainability performance. Martínez-Ferrero & García-Meca, (2020) argue that strong internal corporate governance is essential for aligning organisational strategies with sustainable development goals (SDGs). Their findings suggest that boards that actively engage in sustainability initiatives are better positioned to drive sustainable performance. This aligns with the work of Kachouri et al. (2021), which highlights the mediating effect of corporate social responsibility (CSR) in the relationship between corporate governance and sustainability performance. The authors found that effective governance structures facilitate CSR initiatives, which in turn enhance sustainability outcomes.

2. Influence of Organisational Characteristics

The size of an organisation has been identified as a significant factor influencing sustainability reporting and performance. (Rosati & Faria, 2019) found that larger organisations tend to exhibit higher performance in sustainability reporting, likely due to their greater resources and awareness of sustainability issues (Wang et al., 2023), who noted that corporate governance frameworks serve as safeguards for CSR initiatives, particularly in larger firms where the complexity of operations necessitates robust governance practices.

3. Integration of Sustainability into Governance Structures

The integration of sustainability into corporate governance structures is increasingly recognised as a strategic imperative. Ricart et al. (2005) explored how leading companies in the Dow Jones Sustainability World Index embed sustainability values into their governance practices. Their research indicates that sustainability is not merely an add-on but is becoming a core component of governance frameworks, influencing decision-making processes and stakeholder engagement. This perspective is echoed by Ong and Djajadikerta (2018), who found that attributes such as board composition and the presence of independent directors are closely related to sustainability reporting practices in the Australian resources industry.

4. The Impact of Governance on Sustainability Performance

Several studies have empirically demonstrated the positive impact of corporate governance on sustainability performance. For instance, Suharyono et al. (2023) reported that various elements of corporate governance, including shareholder rights and board responsibilities, significantly affect corporate sustainability performance across economic, environmental, and social dimensions. Similarly, Almici (2012) conducted a content analysis of sustainability reports from Italian listed companies, revealing that adherence to sustainable governance practices correlates with improved performance in multiple dimensions of sustainability.

5. Evolving Literature and Future Directions

The literature on corporate governance and sustainability is evolving from abstract concepts to more concrete and actionable frameworks. Nacciti et al. (2021) noted a shift towards examining specific governance characteristics, such as board diversity and independence, and their tangible impacts on sustainability outcomes. This trend suggests a growing recognition of the need for empirical research that links governance practices directly to sustainability performance metrics.

4. Conclusion

Firstly, strong corporate governance frameworks, characterised by independent boards, transparency, and accountability, are shown to positively influence firms' sustainability outcomes. (Wang et al., 2023) and (Raza et al., 2023) highlight that organisations with well-defined governance structures are better equipped to manage risks associated with environmental, social, and governance (ESG) issues, leading to improved sustainability performance. This aligns with the assertion that corporate governance serves as a critical enabler for implementing CSR initiatives, which are essential for achieving sustainability goals.

Moreover, the integration of sustainability into corporate governance is increasingly recognised as a strategic imperative. Research by Minciullo et al. (2022) demonstrates that both generic and sustainability-related governance mechanisms are key drivers of corporate sustainability performance. This suggests that organisations must not only adopt traditional governance practices but also incorporate sustainability considerations into their governance frameworks to foster long-term value creation.

The review also underscores the importance of contextual factors, such as organisational size and industry characteristics, in shaping the relationship between corporate governance and sustainability performance. For instance, larger firms often exhibit more robust sustainability reporting practices, as noted by Ong and Djajadikerta (2018). This indicates that the effectiveness of governance mechanisms may vary based on the specific context in which a firm operates.

Furthermore, the literature reveals a growing trend towards empirical research that links corporate governance practices directly to sustainability performance metrics. Studies, such as those by Kachouri et al. (2021) and Suharyono et al. (2023), provide valuable insights into how specific governance attributes, such as board composition and stakeholder engagement, influence sustainability outcomes. This shift towards empirical analysis enhances understanding of the mechanisms through which governance affects sustainability performance.

In conclusion, evidence gathered from the literature indicates that corporate governance plays a pivotal role in driving sustainability performance. As organisations face increasing pressure from stakeholders to operate sustainably, the integration of effective governance practices will be essential for achieving long-term success and resilience. Future research should continue to explore the nuances of this relationship, particularly in diverse organisational contexts and across different industries, to further elucidate the pathways through which governance influences sustainability performance.

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6. References

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