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CORPORATE GOVERNANCE, INSTITUTIONAL PRESSURE AND ORGANISATIONAL SUSTAINABILITY: TOWARDS A RESEARCH AGENDA

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Abstract
Sustainability has grown during recent years with increasing interest from both academia and industry. Due to the new trends in global business environment sustainability has become a greater concern among firms globally. This paper focuses on sustainability from the perspectives of corporate governance and institutional pressure because different institutional actors are putting pressure on organisations to implement international best practice of corporate governance. The paper proposed a conceptual framework linking corporate governance and organizational sustainability as well as the moderating effect of institutional pressure in this relationship. A comprehensive review of empirical studies on corporate governance, institutional pressure and sustainability was carried out in order to achieve the stated objectives. Findings from the empirical studies revealed that organizational sustainability is associated with good corporate governance practice. Also, institutional pressure has the capacity of moderating this relationship. Therefore corporate organisations can leverage on corporate governance as it is understood as a vital element for enhancing economic performance and growth and enabler of achieving corporate objectives.

Keywords: *Corporate governance, Sustainability, Institutional pressure, Nigeria.*

Introduction

Recently, the world has seen a convergence in corporate governance practices due to various reasons which include similarities in corporate governance codes of good practices, the convergence of securities regulations for listed companies, the globalization of companies, and the activities of various forms of institutional investors (Tricker, 2009). At the same time, the need for organizational sustainability is now widely recognized. Organisations are adopting resolutions to reduce waste and improve These institutional changes have reshaped the competitive landscape and added environmental issues to the corporate governance agenda (Tricker, 2009).

Therefore, a bold and creative reform in corporate governance structures and practices are needed to meet current globa; realities (Ortiz-de-Mandojana et al., 2010). Recent studies have explored how corporate governance may encourage the adoption of proactive sustainability strategies (Kassiniss & Vafeas, 2002; Berrone & Gómez-Mejia, 2009; Ortiz-de- Mandojana et al., 2010;Walls et al., 2012). Corporate governance strategies that are associated with respectful human behaviors include the delegation of responsibility to a specific committee (Berrone & Gómez- Mejia, 2009), a high number of independent directors on the board (Johnson & Greening, 1999), and the separation of the CEO and board chair positions (McKendall et al., 1999).

Organisations that adopt sustainable development as its strategic goal will soon face a question as to what *method to use for the measurement of corporate sustainability*, *how to set its goals* and what measures and procedures should be used to achieve the goals set. That is, a need arises to collect, record, analyze and transmit information about economic effects of the environmental and social activities. The indicators used in the measurement of sustainable development in companies are developed on a continuous basis by different international organizations with the aim of achieving an internationally acknowledged standard. The most widely known international activity is the Global Reporting Initiative (GRI) which concentrates on standardization of a report on sustainable development (Sustainability Report). Sustainability is strategy of the process of sustainable development. It wins a special importance where this process assists the man in reaching sustainability or can discourage the man from this process. It means that sustainability is the corporate strategy monitoring long-time corporate growth, efficiency, performance and competitiveness by incorporating economic, environmental and social aspects into corporate management. In connection with Corporate Governance and Sustainability relating to measurement of corporate performance even the Corporate Sustainability Reporting gains a great importance.

Previous studies have argued the positive effects of these corporate governance strategies on decisions related to sustainability issues (Berrone & Gómez-Mejía, 2009; Huang et al., 2009; Slawinski, 2010). However, empirical studies have been limited and have found mixed results. For example, Berrone and Gómez-Mejía (2009) did not find evidence to support the impact of the creation of special committees on sustainability decisions, such as linking total CEO pay to sustainable performance. Walls et al. (2012), on the other hand, found that sustainability board committees were positively related to sustainable performance. This study is therefore aimed at proposing a conceptual framework for the relationship between corporate governance and corporate sustainability and examining the moderating role of institutional pressure in this relationship.

This study is beneficial to both academics and managers at the same time. First, the study would provide a framework for analyzing the relationship between corporate governance and organizational sustainability as well as the moderating role of institutional pressure in this relationship.. the study will also open a new horizon for the upcoming researchers to think about organizational performance in a new perspective. This study also has the potential of being significant to managers as implementing findings of this study in their organisations and can enhance corporate performance.

Literature Review and Hypotheses Development

The importance of corporate governance can be found in its contributing to not only corporate prosperity, but also to responsibility. Along with the development of global markets investors activity increases, with them demanding higher standards of responsibility, conduct and performance. Investors tend to seek opportunities outside their domestic markets ever more often. The companies trying to gain resources on the international capital markets, however, often find that capital is only available for those who conform to the internationally accepted standards of corporate governance and publishing of information. These are only some of the reasons leading to the worldwide improvement of the Corporate Governance standard and, in some degree, to its convergence. The defining of Corporate governance is not a matter of unified terminology. In the evaluation of CG (Kavalíř, 2005) the corporate governance is described with the following quotes: a system through which companies are managed and controlled. The statutory bodies are responsible for corporate management. The responsibility of a body covers the setting of a company's strategic goals, the management keeping check on realization of the goals, supervision of the management and informing shareholders about the performance of duties of a steward (Cadbury, 1992). According to another description of CG (Demb & Neubauer, 1992) it is a process through which companies respond to the rights and requests of stakeholders.

Klírová, (2001) sees corporate governance as the key element in the effort to reach economic efficiency and a growth justifying increase in the investor trust. It encompasses a broad range of problems arising from the relationships between the corporate management, the administrative authorities, shareholders and the other stakeholders. However, several definitions of corporate governance are found in the literature, for instance, the Corporate Governance Principles created by the Organization for Economic Co-operation and Development (OECD) in 1999 state the following:

> *"Corporate governance is a system through which business companies are managed and controlled. The structure of corporate governance defines the division of rights and duties between the individual stakeholders in a company and lays down detailed rules and procedures for the decision-making on business matters of a company. On this basis a structure is created that establishes the company goals and the means of reaching the goals and monitoring performance".*

In 2004 the principles of supervision and management of companies from 1999 were reviewed with the aim of responding to the new requirements of the capital market. The corporate governance according to the OECD Principles (2004) is expected to help – as an effective system of corporate governance in place within an individual company as well as across the whole economy – create the trust necessary for the existence of market economy. As a result, the price of capital will be reduced and businesses will make a more effective use of resources.

The gravest problem is seen in the lack of transparency of corporate activities and low responsibility for the ensuing effects. The problems of supervision and management of companies generally concern the power and ownership relations between the basic interest groups. The greatest emphasis is placed on making the relationship between the business owners and the shareholders more efficient, in the broader sense also the relations with the other interest groups (i.e. stakeholders) are involved, such as the state, financial institutions, contractors, customers, employees and the surrounding community. This sphere covers the boundary areas between the economy, law and the theory of organization (Keasey, Thompson, & Wright, 1999).

In Nigeria on the other hand, the dualistic model is used; it consists of the board of directors as the executive body and the supervisory board as the body of supervision. Based on the KPMG research (2005) a board of directors in the Czech Republic typically comprises three members, followed by a five-member setup. A typical supervisory board comprises three or six members. An average number of members of the administrative bodies (9.6) does not reach the numbers common in the EU with the average equalling (12.5) members (Haspeslagh, 2005).

In Nigeria, a Code of supervision and management of companies based on the OECD principles was introduced as early as 2001 and was last updated in 2004. The research conducted in the biggest Czech companies by KPMG has shown that most of the companies have taken the path of least resistance and only implemented the minimum legal requirements for corporate governance. The level of corporate governance and transparency in the different companies depends to a certain extent on the manner in which the company communicates its intangible assets, what are its strengths in the area of executive management and leadership and its credibility with the administrative bodies along with a transparent system of financial reporting.

Corporate governance and sustainability

At present companies tend to focus on sustainable development as well as sustainability, which brings with it changes to the corporate culture as well as society. Sustainability has three important dimensions for all companies: economic growth, social responsibility and responsibility for the environment. The social and environmental responsibility, however, cannot become separated from economic growth. Profitability and growth create jobs and wealth; companies have to continue to provide products and services that people need.

The understanding of characteristics of sustainability is the first step in building the ability to prove how expansion of knowledge can be used in support of employers and public interest.

Sustainability is therefore a strategy of the process of sustainable development. It acquires special importance when the process helps people progress toward sustainability or may, on the contrary, dissuade them from engaging in the process. Sustainability is the ability to sustain the quality of life or the ability to maintain quality, which means that each generation has a responsibility for the quality of life and needs to contin art from the effectiveness and efficiency also o efining of sustainability relates to the concept of the strategy known as the strategy of sustainable develo f CEOs believed that sustain thová, 2010). The relation of the social and Corpo ial indicators. The same principles should be applied to both the financial and nonfin s). This fact indirectly indicates that in the case of such need e company is able to aggregate these data and incorporate it into the corporate sustainability or environmuously improve it. Sustainability in connection with the business environment has become part of the general awareness as a result of environmental approaches implemented in companies. Corporate sustainability is a strategic approach focusing apn the company productivity, on the creation of value for the owners (on competitiveness), as they follow from the environmental, economic and social dimensions. The development, according to the authors (Hart, 1995; Shrivastava, 1996; Stead & Stead, 1995) in relation to the company.

The strategy of sustainability of the company currently includes a broad approach aimed at the integration of economic, environmental and social dimensions. Based on the most extensive study on CEOs so far (Accenture, 2010), 93% of them believe the sustainability issues will be important for future success of companies. In 2007 72% of sustainability issues should be fully integrated into the strategy and running of the company, while in 2010 this belief is expressed by 96%, which proves the increasing interest in sustainability.

The environmental, social and economic factors and Corporate Governance are at the heart of the corporate and business strategies, they are part and parcel of daily operations, stimulate work for success and work as an indicator of threat and risk and push for seizing opportunity, and of course they should become part of the voluntary corporate reporting on the assessment of links between the environmental and economic assessment of performance, the social assessment of performance and the relation to Corporate Governance. Although there is no direct relation between the environmental performance and that of Corporate Governance (Salo, 2008), we can state that the environmental performance and the Corporate Governance performance individually contribute to the general performance. There is a fuzzy relation, too, between the environmental and the economic performance (Horváthova, 2010).the relationship of the social and corporate governance performances and the relation of the social - environmental performances and the economic performance should be the subject of further research. Based on these, we propose the following hypothesis:

H1: effective corporate governance will have significant positive effect on corporate sustainability

Moderating role of institutional pressure

Regulatory pressures are one of the main determinants of firms' environmental behaviors in many countries (Henriques & Sadorsky, 1996; Dasgupta et al., 2000; Chan & Welford, 2005; Sarkar, 2008). These pressures are formalized in laws and rules (Kostova & Zaheer, 1999) and guide organizational action by the threat of legal sanctions. Hence, firms typically comply with regulations because of expedience, that is, they prefer not to suffer the penalty of non-compliance (DiMaggio & Powell, 1983). However, regulatory reformers have argued that by focusing on compliance, many existing regulatory strategies have failed to facilitate or reward beyond-compliance behavior or have even inadvertently discouraged it (Kagan et al., 2003). For example, specification-technology-based standards and performance standards (which specify outcomes but not how to achieve them) in host countries are two stringent and reactive regulatory strategies focused on compliance. These regulatory strategies require that firms achieve minimum standards to maintain their legitimacy, but they do not provide incentives or encouragement for firms to go beyond those standards (Kostova & Roth, 2002).

We propose that the effect of corporate governance on corporate social responsibility should be relatively higher when weaker regulatory pressure is put in place because, firms' behaviors would be dominated by the law, and there would be fewer incentives for firms to go beyond the minimum legal environmental standards. Previous studies have argued that less stringent regulations would push firms toward innovations and continual improvements

in their products and processes (Rugman and Verbeke, 1998; Aragón-Correa & Sharma, 2003). For example, Majumdar and Marcus (2001) Flexible regulations allowed firms to adopt efficient and productive technologies and in turn increased the likelihood of increasing productivity and gaining competitive advantage. Therefore, we argue that under highly stringent regulations, the impact of corporate governance mechanisms such an environmental committee, a high number of independent directors on the board, and separate chair and CEO positions on promoting sustainability would not be relevant. Based on this reasoning, we propose the following hypothesis:
H2: weak regulatory pressure, will lead to higher positive relationship between corporate governance and corporate sustainability.
In line with the above hypotheses, a conceptual framework depicting the relationship between corporate governance and sustainability as well as the moderating role of institutional pressure on this relationship was presented in figure 1.

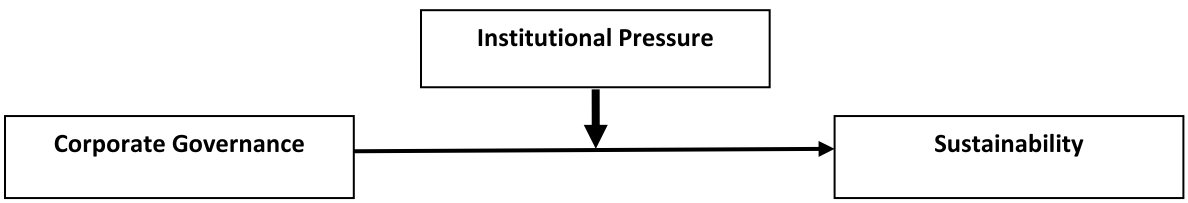

Figure 1: Conceptual framework

Conclusions
In studying the synergies and interrelationships between corporate governance and sustainability, empirical studies linking these concepts were reviewed. These studies revealed that there was a complex yet strong relationship between the two concepts. Reviews on corporate governance and sustainability emphasized the integration of the two for ensuring sustainable continuation of the functioning of a firm. For CSR and sustainability, it was found that the concepts were interconnected and promotion of CSR in a righteous way could lead towards realization of sustainable economic growth. Issues like globalization, corporate scandals around the world and climate change have highlighted the need to embed sustainability in corporate values, strategies, governance mechanisms, risk management structure, incentive programs, code of ethics and disclosure practices of a firm.

Decision-making is based on a qualified assessment (measurement) of a situation determined at the same time by multiple factors (indicators), primarily in their horizontal development. In pursuit of an outstanding informative force an emphasis is currently placed not only on the absolute data, but in the first place on the change data and analyses of changes of these changes. That is, dynamics of systems is the focus of attention. Appropriately applied vertical analyses then add further dimension to the conditions for decision making. In this conjunction other methods have to be discussed: logical and empirical methods, methods of qualitative and quantitative research such as in particular modelling of a social statistics. As more investors incorporate sustainability factors into their decision-making, the inadequacy and inconsistency of much current reporting on the issues becomes ever clearer.

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