

Determinants, Mechanisms and Consequences of Corporate Governance Reporting: A Research Framework

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Abstract

Corporate governance disclosures form a key part of a company's non-financial reporting. Several studies consider the determinants of corporate governance reporting, including external factors such as country-specific legislation and scandals, and internal factors such as financial performance, size and culture. Others consider the consequences of corporate governance reporting, using simple proxies for corporate governance mechanisms such as board composition characteristics to analyse the impact on financial reporting quality and company valuation. Yet the determinants and consequences of corporate governance reporting may be interlinked, and many quantitative studies fail to consider these links and their multiple effects adequately. Poor financial performance, for example, can be both a determinant and a consequence of the underlying governance mechanisms that corporate governance reporting aims to capture. The framework provided in this paper considers both the determinants and consequences of corporate governance and likely links between them, and also considers internal corporate governance mechanisms and the measures that are used as their proxies. In combining these three aspects of corporate governance and showing potential links, the framework offers insights into future research opportunities. The framework can be adapted to any country or organisational setting and also offers the opportunity to consider theories other than agency theory when studying corporate governance disclosures.

1 Introduction

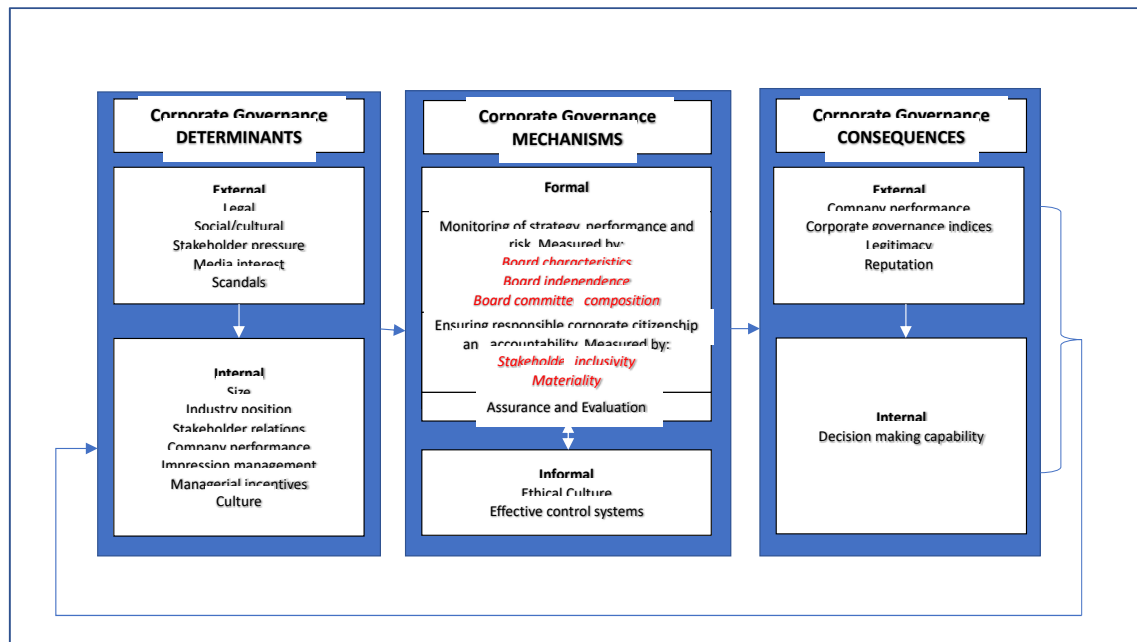
Corporate governance is the “exercise of ethical and effective leadership by the governing body towards the achievement of the following governance outcomes: ethical culture, good performance, effective control and legitimacy” (IODSA, 2016), p20, and relates to the way that firms are governed rather than to the way they are managed. Reporting on corporate governance traditionally aimed to address and disclose relevant issues faced by boards of directors which were of interest to company stakeholders (Tricker, 2015), although recently the range of interested stakeholders, and the concept of governance, has become much broader (Lai, Leoni, & Stacchezzini, 2019).

Corporate governance reporting can be considered part of the wider literature on corporate non-financial reporting, being subject to many of the same external and internal influences. However, there are also some specific features (such as corporate governance ranking scores) that are unique to corporate governance reporting that will be covered in this review. The aim of this paper is to provide a framework to consider for future research into corporate governance reporting, which is provided in Figure 1. By providing an overview of the determinants, mechanisms and consequences of corporate governance reporting, and the many links between them, it suggests avenues for further research that are outlined in the concluding section.

There are many external and internal determinants of corporate governance disclosure. Country-specific legislation and cultural norms drive much of the disclosure (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000) but other external factors such as media interest and stakeholder activism also play a part (Uysal & Tsetsura, 2015). Within organisations, financial performance (weak or strong) may result in a desire to provide more information regarding an organisation’s corporate governance (Grove, Patelli, Victoravich, & Xu, 2011) as can pressure to conform to industry norms, demonstrate industry leadership to peers or mimic others (Tang,

Fu, & Yang, 2019). Firm-specific governance scandals are also very likely to result in changes to the nature of information provided by a firm (Christensen, 2016). In addition, less observable factors such as organisational culture can be significant in terms of the level of transparency provided in corporate disclosures (Llopis, Reyes Gonzalez, & Gasco, 2007).

Figure 1: Corporate Governance Reporting: A Research Framework.



The board and its committees not only provide a monitoring role, overseeing and advising on corporate strategy, performance and risk, but can also provide network links and resources to organisations (Endrikat, De Villiers, Guenther, & Guenther, 2020). As corporate governance is so central to an organisation’s successful operation, one of the key challenges when researching in this area is finding suitable metrics to use to measure the strength of corporate governance mechanisms (Bhagat, Bolton, & Romano, 2008). Corporate governance mechanisms such as board composition and meeting frequency are often used as proxies for underlying corporate governance quality, yet there are also informal mechanisms such as

managerial attitude and organisational culture that, although less studied, are likely to be highly influential (Llopis et al., 2007).

Much of the research into corporate governance reporting centres on whether or not there are positive economic outcomes as a result of strong corporate governance practices (Grove et al., 2011). These are usually measured by Tobin's Q, improved cost of capital or changes in corporate governance ranking indices. These outcomes can also become subsequent determinants of corporate governance reporting, as indicated in Figure 1. Yet there are also other less explored consequences such as improved corporate reputation and more effective decision making that can result from changes to corporate governance mechanisms (Lightle, Baker, & Castellano, 2009).

There are many complications with studies into corporate governance reporting. Many different input and output models are proposed, using different equations and measures, and coming to varying conclusions. In addition, it is likely that multiple factors will be influential with a concept as fundamental to organisations as corporate governance, even though many quantitative studies attempt to isolate particular characteristics in causal models (Endrikat et al., 2020). The dominance of quantitative research methods in this field also means that boards and their processes are often considered as a mysterious 'black box' (Parker, 2017), and that mutual relationships, for example between accounting and governance, are not considered sufficiently in both contemporary and historical perspectives (Lai et al., 2019). To complicate it further, corporate governance characteristics and their effects are also often studied at different levels (individual, group, organisational and national) even though corporate governance itself is a broad multi-level construct (Dalton & Dalton, 2011).

The majority of the literature that considers corporate governance reporting does so from an agency perspective, making the assumption that strong corporate governance reduces the opportunity for rent extraction by managers from shareholders (Jensen & Meckling, 1976).

Yet the increasing move towards providing non-financial information to a broader range of stakeholders (whether mandatory or voluntary) suggests that other theories, in particular stakeholder theory, may be worthy of further consideration in the corporate governance context (Stovall, Neill, & Perkins, 2004). In addition, according to resource dependency theory, effective boards should also not just monitor managers, but should also enable managerial entrepreneurship, bringing network benefits to stakeholders of the firm (Filatotchev, 2007). Stewardship theory is also another lens through which to study corporate governance reporting, contrasting with agency theory in making the assumption that company directors can be trusted to act in the public good (Calder, 2008).

The contribution of this study is the proposal of a simple framework to guide corporate governance research. The aim of the framework is to capture the major influences on corporate governance, and to acknowledge the multitude of potential links between them (Endrikat et al., 2020), supporting the calls for more multidimensional research into corporate governance (Dalton & Dalton, 2011). The framework in Figure 1 provides an overview of the key determinants, internal mechanisms (and corresponding measures) and consequences of corporate governance, and the links between them. Similar frameworks have been proposed to consider the determinants of other types of non-financial disclosure, such as sustainability disclosures (Alrazi, De Villiers, & Van Staden, 2015). The Alrazi et al. framework indicates how both internal and external determinants play a part in internal sustainability mechanisms, and eventually organisational accountability, and bears many similarities to the left hand side of the framework shown in Figure 1. However, the Alrazi et al. framework does not consider the consequences of reporting, and the links between consequences and determinants which Figure 1 does.

The framework above shows the major determinants, mechanisms and consequences of what can determine either strong or weak corporate governance. Determinants and consequences can be both external and internal, and there are also multiple links between them. For example, company performance (financial or non-financial) is both a consequence and possible determinant of corporate governance strength. Section 2 explores the determinants, Section 3 the internal mechanisms, and Section 4 the consequences of corporate governance, and Section 5 discusses the potential links between them. Section 6 considers the opportunity for exploring corporate governance through other theories, such as resource dependency, stakeholder and stewardship theory. Section 7 concludes and suggests avenues for future research.

2 Determinants of corporate governance reporting

Figure 1 indicates that the determinants of corporate governance reporting can be both external and internal, and for most organisations are likely to result from a combination of external and internal factors. Many studies examine causal connections between external factors such as country-specific legal guidance and internal factors such as reactions to company-specific pressures on a company's likelihood to disclose information about their corporate governance (Cahan, De Villiers, Jeter, Naiker, & Van Staden, 2016). Like other types of non-financial disclosure, these disclosures may be superficial (just providing legally required information) or may reflect deeper underlying changes to corporate governance mechanisms and internal control quality (Wang, X., 2010). However, corporate governance studies have been criticised for their use and measurement of multiple country-level factors to explain country and firm specific governance mechanisms, making comparisons difficult (Schiehll & Martins, 2016), and for their focus on an economic rather than an institutional perspective.

2.1 External determinants of corporate governance reporting

2.1.1 Legal

Companies may report corporate governance information because it is mandatory, or offer disclosures information voluntarily. It is important to distinguish between these two types of information provision, as voluntary reporting introduces a number of other potential influences, as for the voluntary reporting of any other type of non-financial information.

Mandatory corporate governance reporting

Most countries have their own corporate governance codes which influence corporate governance mechanisms and their disclosure. The level of an organisation's internationalisation may also mean that it needs to comply with corporate governance codes in multiple jurisdictions. There are two main approaches to governance regulations – a highly prescriptive ‘apply or die’ approach such the Sarbanes-Oxley Act (SOX) 2002, which involves significant financial and criminal penalties for non-compliance, and a more self-regulated principles-based ‘apply or explain’ approach based on the Cadbury Code of 1992 which was subsequently developed into the UK Combined Code (Calder, 2008). A further development of the principles-based approach is the ‘apply and explain’ (apply principles and explain practice) approach which is a hallmark of the King IV governance code in South Africa, which promotes an outcomes-based view of governance based on Integrated Reporting (IODSA, 2016). SOX is probably the most significant piece of legislation around corporate governance ever introduced, following a wave of major corporate governance scandals, most notably the Enron case. SOX sets out a series of requirements which has resulted in stock exchanges increasing their requirements for the independence of directors and establishment of committees headed by non-executive directors (Bebchuk, Cohen, & Ferrell, 2009). The mandatory disclosures required by SOX, for example around internal controls, are aimed at

reducing information asymmetry, driven by the need to control the excessive managerial discretion seen in the Enron case. Self-regulated corporate governance codes such as the UK and South African examples above can lead to different interpretations of corporate governance within firms (Okhmatovskiy & David, 2012), showing that the governance context within which firms operate is a critical determinant to consider.

Voluntary reporting – legal and social

Although SOX and other regulations relate specifically to corporate governance activities and disclosures, other types of mandatory disclosure and reporting can also influence corporate governance reporting. For example, the recent EU Directive on non-financial reporting, even though it allows considerable flexibility, is likely to result in firms providing additional corporate governance disclosures (Camilleri, 2015). Increasing interest in CSR disclosures has also led to improvements in the disclosure of relevant corporate governance information (Kolk & Pinkse, 2010). As corporate governance is so central to a company's operations, mandatory disclosures of other types may well result in the provision of additional corporate governance information to shareholders, either explicitly or implicitly. Country-specific governance factors such as legal origin, investor protection regulations and culture may affect how organisations choose to present their corporate governance information (La Porta et al., 2000). Increased public scrutiny and regulatory oversight can also result to changes in the type of corporate non-financial information provided (De Villiers & van Staden, 2011). Many stakeholders, not just financial ones, have an interest in the corporate governance information provided by a firm, and many corporate governance codes (including South Africa's King codes and the UK's Combined Code) consider management to have a duty of responsibility to a broad stakeholder base, operating under a social licence which requires them to consider stakeholder needs and prevailing social norms (Suchman, 1995). The social and cultural norms in different countries

can also influence corporate governance, with research showing that countries with a higher preference for rules tend to have better corporate governance (Duong, Kang, & Salter, 2016).

2.1.2 Stakeholder pressure, media interest and scandals

Other external pressures include stakeholder pressure (Alrazi et al., 2015) which can be exacerbated by direct or indirect media pressure (Shipilov, Greve, & Rowley, 2019). The emergence of multi-stakeholder NGOs, and broad initiatives such as the GRI and UN SDGs are increasingly influencing organisational norms (Grosser, 2016). Corporate scandals for other firms can also trigger a renewed interest in corporate governance in certain sectors or countries. The Enron scandal, for example, renewed interest in corporate governance disclosures for all organisations, regardless of their sector (Calder, 2008). Scandals specific to a certain industry may also lead to increased regulatory and media scrutiny for all organisations in the industry, regardless of their own track record in corporate governance (Bebchuk et al., 2009).

2.2 Internal determinants of corporate governance reporting

2.2.1 Size and industry position

A company's size, industry position and global scale may influence its likelihood to report corporate governance information voluntarily. Firms providing more CSR information have been found to be large, in high profile industries and more highly leveraged, and also to possess better corporate governance ratings (Chan, Watson, & Woodliff, 2014). High quality disclosures may help larger, more successful organisations to differentiate themselves from their competitors (Eccles & Krzus, 2010). Smaller firms, especially family owned ones, have less incentive to provide information around their corporate governance voluntarily (Satta, Parola, Profumo, & Penco, 2014).

2.2.2 Stakeholder relations and company performance

Pressure may also come from the ownership of the organisation, particularly when there are institutional or block shareholders who may influence firm performance (Bushee, 1998) and disclosures (Bae, Baek, Kang, & Liu, 2012). Depending on the size of the firm, director shareholdings may also be an influencing factor (Satta et al., 2014). In addition to shareholder pressure, there may be pressure from other non-owner activists to include particular types of information, for example board diversity statistics (Uysal & Tsetsura, 2015).

The financial performance of an organisation may also be a contributing factor to corporate governance disclosures. Weak financial performance may result in closer scrutiny of corporate governance practices, and managerial compensation structures for example (Grove et al., 2011). An organisation's level of leverage is also likely to be a contributing factor, as when bank debt levels increase, external monitoring by banks may become exert more significant influence (Jensen, 1986). Company-specific scandals are also likely to lead to changes in disclosures of ESG information (Utz, 2019).

2.2.3 Impression management, managerial incentives and organisational culture

Companies often look to their peers when preparing annual report disclosures, resulting in the potential for mimicry, particularly for organisations newer to a particular type of reporting, or smaller organisations attempting to save time and expense by following the disclosures of their larger peers (Tang et al., 2019). There may also be peer pressure within the board itself (possibly from NEDs with other board positions) and CEO peer pressure to disclose certain types of corporate information. Agency theory would suggest that managers are only likely to provide such additional disclosures if they paint them in a good light (Beattie, 2014), and impression management has been shown to contribute to other non-financial disclosures such as business model disclosures (Melloni, Stacchezzini, & Lai, 2016).

There are other more informal reasons for the voluntary disclosure of corporate governance information. Corporate governance is closely related to company culture, which in turn is closely connected to managerial attitudes. A change in corporate culture towards a more transparent and collaborative culture may result in the voluntary provision of additional information externally (Llopis et al., 2007). Other researchers have suggested that looking at corporate governance from a behavioural science perspective would be useful, particularly as key managers (the CEO) and board members exert considerable influence over corporate governance practices and organisational culture (Hambrick, Werder, & Zajac, 2008).

3 Corporate Governance Mechanisms

A board's role is to help to set and steer an organisation's strategic direction, monitor planning and policies and ensure accountability. The outcomes of good corporate governance are therefore not only good financial performance, but also the development of an ethical culture, effective control systems and ultimately organisational legitimacy (IODSA, 2016). A large body of research considers corporate governance characteristics and their influence on effective corporate governance outcomes. Much of this quantitative research assumes that corporate governance characteristics, for example board and committee composition and board meeting frequency, capture the quality of the underlying corporate governance mechanisms. However, many of the studies consider formal mechanisms alone, and do not consider informal mechanisms such as organisational culture, which may be highly influential, particularly in smaller firms (Satta et al., 2014).

3.1 Formal corporate governance mechanisms

Corporate governance mechanisms within a firm (as distinct from those mechanisms imposed externally by a country's legal framework) comprise the set of rules, processes and processes

that either formally or informally enable the board of directors to govern. These enable the monitoring of strategy, performance and risk and encourage good corporate citizenship and organisational accountability. There are several proxies used as measurements of formal corporate governance mechanisms, the most common of which are board size and composition, committee size and composition, board independence, and factors such as meeting frequency. The existence of formal procedures and policies, for example whistle-blowing policies, and external assurance, are also examples of formal governance mechanisms.

3.1.1 Monitoring of strategy, performance and risk.

One of a board's primary roles is the monitoring of management (Endrikat et al., 2020). In order to be able to monitor effectively, a board needs to have the appropriate capabilities, including experience and a broad perspective. In addition, a board should be independent of a firm's management in order to be able to oversee activities effectively. Formal procedures such as board evaluation and assurance can help to give confidence in a board's ability and independence. Consistent with agency theory, a capable and independent board subject to review and assurance should minimize rent extraction by management (Jensen & Meckling, 1976).

Board characteristics

The size of a board (number of board members) can signal managerial ability and expertise, which should improve the quality of information disclosure, and several studies support this view (Cooray & Senaratne, 2020; Jizi, Salama, Dixon, & Stratling, 2014). Board size is also positively related to CSR (Endrikat et al., 2020). Not only does board size suggest a breadth of experience in order to monitor management, it also means that firms can potentially benefit from the connections of board members (Endrikat et al., 2020). Diversity (of gender,

race, and experience) is also studied extensively, with studies investigating the impact of different characteristics of the board on firm performance. Gender diversity (usually measured as the proportion of women on boards) is argued to have a positive impact on the quality of voluntary disclosures including environmental disclosures (Cooray & Senaratne, 2020; De Villiers, 1998) and it is possible that gender diversity also contributes to the quality of corporate governance disclosures. Certainly research has found women to have a different attitude towards risk than men (Croson & Gneezy, 2009). However, other studies have found negative associations between both gender and age and firm performance (Shehata, Salhin, & El-Helaly, 2017), and suggest that other factors such as firm size may be influential in the relative importance of board diversity.

Another aspect of corporate governance that is commonly disclosed is board meeting frequency and attendance. Board meeting frequency has been found to have no significant association with financial performance (Grove et al., 2011), although others have found that insider ownership reduces board and committee meeting frequency, whereas NEDs increase it, suggesting that board independence may be a contributory factor (Greco, 2011).

Board independence

Board independence is also associated with improved corporate disclosure quality (Xia & De Beelde, 2018) and financial performance (Chou, Chung, & Yin, 2013). Board independence can be measured by the number of non-executive directors (NEDs), as the assumption is that they will be able to reduce executive director dominance over decision-making (Forker, 1992). However, this formal measure may miss the informal network connections between directors and the CEO outside the boardroom which could compromise director independence (Fracassi & Tate, 2012). Also, from a resource-dependency perspective, the independence of board members suggests more external contacts and connections which could benefit the firm

(Hillman & Dalziel, 2003). The absence of CEO duality (the CEO and board chair roles being held by the same individual) is also a measure of board independence, although findings as to its effectiveness are mixed (Grove et al., 2011). In both independence measures the assumption from an agency theory perspective is these mechanisms mean that executive directors will not be able to dominate decision-making, which should improve the information flow to stakeholders (De Villiers, Naiker, & van Staden, 2011; Forker, 1992). However, research supporting these basic assumptions of agency theory are inconclusive, involving multiple differing measures of both board independence and financial performance (Dalton & Dalton, 2011).

Board committee composition

Board committees are a delegation mechanism for boards, allowing for the effective discharge of a board's duties by the use of smaller, independent, focused decision-making bodies (IODSA, 2016). The number of committees can mitigate the potential inefficiencies that may result from very large boards (Upadhyay, Bhargava, & Faircloth, 2014). The main committees that are commonly studied in this light are audit committees, risk committees, nomination and remuneration committees and various types of ESG / CSR committee. The existence of such committees, along with their composition (using similar composition metrics as for boards), are variables of interest in several studies looking at financial and non-financial outcomes, and can potentially give insights into how boards discharge their monitoring duties.

Audit committees, a statutory necessity in some jurisdictions, play an active role in improving corporate disclosures through their focus on internal controls and high quality reporting processes. The relative independence of an audit committee (achieved through a higher proportion of independent members) should also improve disclosure quality (Forker, 1992). Other studies consider a separate risk management committee as an important feature,

particularly for the provision of high quality risk-related information disclosures (Tao & Hutchinson, 2013). Nomination and remuneration committees, with their role in CEO appointment and remuneration in particular, are the subject of focus for academic studies as they can help to indicate the relative independence of management (Kaczmarek, Kimino, & Pye, 2012). Evidence shows that the composition characteristics of ESG and CSR committees can improve social responsibility outcomes (Eberhardt-Toth, 2017). The existence of committees, however, does not necessarily mean that they function effectively (Carrott, 2013) and committees may also play a mediating rather than a direct role in terms of corporate disclosures (Endrikat et al., 2020), again indicating the importance of not considering causal effects in isolation.

3.1.2 Ensuring responsible corporate citizenship and accountability.

Despite the agency focus of much research into corporate governance, there is increased recognition of the importance of CSR and ESG related matters to firms. The board of directors have a responsibility to a broader set of stakeholders than just shareholders and increasingly need to consider society at large to ensure organizational legitimacy (Suchman, 1995).

Stakeholder inclusivity

The emergence of multi-stakeholder global governance initiatives such as the UN SDGs and GRI influence the policies and practices of firms, suggesting that more academic attention should be paid to stakeholders other than shareholders. The existence and composition of ESG and CSR committees, as mentioned earlier, is considered as a proxy for shareholder inclusivity in some studies, but these do not really consider a firm's multiple stakeholders,

particularly marginalised ones (Grosser, 2016). Board composition may be indicative of stakeholder inclusivity, but is unlikely to reflect how decisions are prioritised internally.

Materiality

With the proliferation of data available to directors, and the increasing scope of the firm in society, there needs to be an effective way of prioritizing decisions. Although often associated with corporate reporting, materiality is as much a governance issue as a reporting one (Eccles & Youmans, 2016). The ultimate responsibility for materiality rests with the board of directors, who need to determine which stakeholders and which particular issues are of the most importance to a firm. Integrated Reports often include a statement around materiality, and some studies have found a link between board diversity statistics and the quality of materiality disclosures (Fasan & Mio, 2017). Content analysis of such disclosures may yield insights into decision making mechanisms within firms that are not as evident in simple board or committee composition statistics.

3.1.3 Assurance and evaluation

Assurance is a potential mechanism to improve governance, as companies traditionally use external assurance to reduce risks and review the effectiveness of governance practices, implying a managerial commitment to transparency and reliability (Simnett & Huggins, 2015). However, studies come to mixed conclusions as to the effectiveness of assurance, as without corresponding changes to underlying mechanisms, it can be seen as just a public-relations exercise (Segui-Mas, Bolas-Araya, & Polo-Garrido, 2018). Whistle-blowing regulations and policies are another corporate governance mechanism, although research has shown mixed results on their effectiveness, noting that results are highly dependent on the underlying corporate governance practices both within firms and also within different countries (Pittroff,

2016). Independent evaluation or self-evaluation of the board's effectiveness are also assurance mechanisms which are encouraged by many governance codes, including the UK's Combined Code (Long, 2006).

3.2 Informal corporate governance mechanisms

3.2.1 Ethical Culture

The tone at the top of an organisation is likely to determine how corporate governance practices are institutionalised. Studies have found that when employees perceive management as trustworthy and ethical, the performance of the firm is stronger, indicating that traditional measures of corporate governance may have less of an impact than originally thought (Guiso, Sapienza, & Zingales, 2015). Indeed, many corporate governance scandals are centred on stories of unethical leadership (Boddy, 2013). However, despite the importance of corporate culture to the effectiveness of corporate governance mechanisms, it is difficult to measure through corporate governance reporting, although potential measures could include a reduction in corporate scandals, or improvement in corporate reputation rankings.

3.2.2 Effective control systems

Corporate culture can be considered as part of the wider scope of both formal and informal management control systems. However, the different management control mechanisms used for a concept as broad as corporate governance are difficult to isolate for the purpose of causal studies, as many are likely to be interrelated (Endrikat et al., 2020). Evidence has shown, however, that not only are management control systems used to embed corporate governance practices, they can also change them (Ferry & Ahrens, 2017). Control systems are usually studied qualitatively, yet qualitative studies constitute a tiny proportion (less than 1%) of studies into corporate governance, and there have been calls for more research of this type to

yield deeper insights (McNulty, Zattoni, & Douglas, 2013). The dominance of quantitative research methods, rather than qualitative or mixed methods, has led to corporate governance processes themselves being bypassed in academic research and poorly understood as a result (Parker, 2017).

4 Consequences of corporate governance reporting

The main consequences of corporate governance reporting that are considered by academic studies are improved firm value (usually measured by Tobin's Q) and reduced cost of capital. In addition, the existence of corporate governance rankings acts as a mediating factor, with these rankings both a consequence of and a determinant of future financial performance. Other consequences of corporate governance reporting include corporate reputation, legitimacy and the potential for scandals and fines. There may also be internal consequences of corporate governance reporting, such as changes to managerial incentive structures and improved decision making.

4.1 External consequences of corporate governance reporting

4.1.1 Company performance

Consistent with agency theory, firms with stronger governance are associated with better financial performance (Grove et al., 2011). As a consequence of the disclosures required by SOX, CFOs at organisations with stronger internal controls received higher executive compensation, and were less likely to depart their roles than CFOs at firms with weaker controls (Wang, 2010). Firms with perceived weaker governance are associated with higher CEO pay, and an increased propensity to use compensation consultants (Armstrong, Ittner, & Larcker, 2012). Entrenchment provisions such as staggered boards and supermajority voting requirements for takeovers have been found to reduce firm value, as measured by Tobin's Q

(Bebchuk et al., 2009). The transparency of financial and non-financial information should therefore be associated with value creation opportunities (Cooray & Senaratne, 2020). However, other theories can also explain the links between board characteristics and corporate governance outcomes. As boards also provide access to networks and resources, certain board characteristics resource provision determine the association between board characteristics and firm performance, following resource dependency theory (Hillman & Dalziel, 2003).

There have also been studies into non-financial consequences of reporting, such as environmental performance (De Villiers et al., 2011), and links have been suggested between high corporate governance quality and improved CSR disclosures (Chan et al., 2014), although as CSR is a multi-dimensional construct many of these studies use different measurements for CSR (Wang, H., Tong, Takeuchi, & George, 2016). The many similarities between CSR and corporate governance reporting also make it difficult to isolate the effects of the corporate governance reporting alone.

4.1.2 Corporate governance indices

Corporate governance rankings are widely used, and are therefore likely to contribute to how organisations report their corporate governance. There is inconsistent evidence of an association between corporate governance rankings and financial performance, possibly because of the difficulties associated with constructing meaningful measures, and the multitude of different commercial and academic corporate governance indices available (Chan et al., 2014). These rankings and indices can be both a determinant and a consequence of corporate governance, and may add to the pressure on corporations to adapt their governance reporting and mechanisms, even to fit a benchmark that may be unsuitable to their unique circumstances (Lysandrou & Parker, 2012). An additional consequence of corporate governance rankings comes from their relative importance to institutional investors, with some arguing that rankings

are not used to predict financial performance, but instead are used to capture reduced risk, useful in the construction of trading portfolios (Lysandrou & Parker, 2012). CSR ratings are also closely related to corporate governance rankings, and can mediate the effect of corporate governance characteristics on reputation (Bear, Rahman, & Post, 2010).

4.1.3 Legitimacy and reputation

Legitimacy is a critical outcome of corporate governance reporting, as companies operate under social licences which expect them to conform to certain values and beliefs (Suchman, 1995). A failure of legitimacy can lead to dissatisfied stakeholders withdrawing capital and business, or voicing their concerns through regulators or the media (Alrazi et al., 2015).

Some studies have found links between certain corporate governance characteristics, such as gender diversity, and improved firm reputation (Bear et al., 2010). However, there may be other mediating influences on firm reputation, such as the legal environment and shareholder and creditor rights (Soleimani, Schneper, & Newburry, 2014).

4.2 Internal consequences of corporate governance reporting

4.2.1 Decision making capability

Reporting on corporate governance should improve corporate accountability and operational management, making companies less likely to engage in high-profile misconduct, and less likely to incur financial punishment in terms of stock price reaction if they do (Christensen, 2016). Certain board and committee characteristics, such as the level of financial expertise, have been found to correlate with internal control quality (Hoitash, Hoitash, & Bedard, 2009). Generally, it is assumed that boards have significant influence in terms of helping to shape an organisational culture that promotes good corporate governance (Lightle et al., 2009). However, it is certainly possible to change external reporting of any type without the

underlying decision making processes changing (Stubbs & Higgins, 2014) if the provision of such additional information is just regarded as a compliance exercise.

5 Links between determinants, mechanisms and consequences

The framework in Figure 1 indicates the multiple links between determinants, mechanisms and consequences of corporate governance. The existence of these multiple links, in particular the links between consequences and determinants, are important to consider in any causal model, as many of them point to the potential for reverse causality, along with the multiple measurement and correlation issues already discussed. Corporate governance mechanisms may also act as complements or substitutes for one another, depending on the governance context (Satta et al., 2014). This framework indicates that although many academic studies into corporate governance use causal models based on agency assumptions, these models are likely to be overly simplistic given the multiple potential influences at both a macro and micro level. Calls for more research using other methodologies and considering different theoretical perspectives appear valid considering this review (McNulty et al., 2013), and the framework proposed in Figure 1 allows for these different perspectives.

6 Theories of corporate governance reporting

A key concept of corporate governance is accountability, and corporate governance mechanisms can be used to extend managerial accountability beyond just shareholders to a wider set of stakeholders (Cooray & Senaratne, 2020). There have been increasing calls to consider corporate governance from a broader perspective than the shareholder primacy perspective that still dominates the literature (Cheung, 2018; Endrikat et al., 2020; Grove et al., 2011). The Anglo-American focus on agency theory in the majority of academic research also ignores the fact that in some economies, such as China, the state has control over listed

companies, resulting in very different pressures on firms (Habib & Jiang, 2015). Agency theory assumes that directors are self-serving, needing to be monitored and controlled to ensure that shareholder interests are met (Jensen & Meckling, 1976). Studies with an agency theory perspective assume that corporate governance mechanisms exist to reduce information asymmetry, thereby minimising the rent extraction by managers from shareholders and maximising the value of the firm (Jensen & Meckling, 1976). Agency theory therefore proposes that firms with stronger governance are associated with better financial performance (Grove et al., 2011) and firms with perceived weaker governance are associated with increased rent extraction such as higher CEO pay (Armstrong et al., 2012).

However, other theories can also explain the links between board characteristics and corporate governance outcomes. Stakeholder theory considers managers to be accountable to a much broader set of stakeholders than just shareholders, and posits that information provided by firms should not only reduce information asymmetry (Jensen, 2010), but also reduce conflicts of interest between different stakeholder groups (Velte & Gerwanski, 2020). Stewardship theory also considers a broader range of stakeholders than the shareholder primacy model, and with the increase in non-financial and integrated disclosures may need to be considered further as a basis for any type of corporate governance disclosures (Dumay, La Torre, & Farneti, 2019). Proponents of stewardship theory are resistant to the regulation of corporate governance, for example restrictions on CEO duality, as the theory holds that directors can generally be trusted to act in the public good (Calder, 2008). Along with their role as a monitor of managers, boards can also provide access to networks and resources, suggesting that resource dependency theory is also a useful angle to consider (Endrikat et al., 2020; Hillman & Dalziel, 2003). There is also the market theory of corporate governance, which ignores the relative perceptions of managers as stewards or agents and assumes instead that poor investment returns will be punished by shareholders selling their shares. This theory, however, has been undermined by scandals such

as Enron where employees were unable to sell their shares even when they were made aware of existing corporate governance weaknesses (Calder, 2008).

The Framework in Figure 1 offers the potential to consider theories other than agency theory when considering corporate governance determinants, mechanisms and consequences, responding to more calls for research of this type (Parker, 2017; Habib & Jiang, 2015; McNulty et al., 2013).

7 Conclusion and Research Avenues

Conclusion

Strong corporate governance is associated with improved firm performance and organisational reputation and legitimacy (Bear et al., 2010; Grove et al., 2011). The framework provided in this article recognises that the determinants, mechanisms and consequences of strong or weak corporate governance are often linked, and that many contributing external and internal factors can be studied. This article is not intended to be a comprehensive review of the literature, neither is the framework designed to be exhaustive. Instead, it aims to place the key interlinked factors into a simple model for reflection and for the generation of new research ideas and methods. The framework helps to highlight gaps in existing literature, notably in the area of governance mechanisms. Although there are many different measures that are used as proxies for underlying governance mechanisms, there is little research on the effectiveness of these mechanisms in practice (Parker, 2017). Potential avenues for future research in this and other areas are highlighted below.

Avenues for further research

Although reporting on corporate governance aims to convey the underlying strength of corporate governance mechanisms, in reality corporate governance, embedded as it is

throughout organisations, is difficult to measure. Metrics taken from reporting on corporate governance, such as board composition statistics, are widely used yet may not reflect underlying corporate governance capability, which can be influenced by less formal mechanisms such as organisational culture (Hambrick et al., 2008). As such, qualitative studies into corporate governance, in particular research into management control systems could help in challenging some of the dominant assumptions in the existing corporate governance literature about how actors and organisations actually operate (McNulty et al., 2013; Parker, 2017). Looking at corporate governance from a behavioural science perspective would also potentially be useful, particularly as key managers (the CEO) and board members exert considerable power over corporate governance practices and organisational culture (Hambrick et al., 2008) and the majority of existing research is focussed on whole boards rather than individual actors (McNulty et al., 2013). Board and managerial attitudes towards corporate governance may also be captured by narrative disclosures rather than quantitative disclosures in annual reports and other data (for example website data) captured by the firm (Short, Broberg, Cogliser, & Brigham, 2010), suggesting that content analysis might be a useful methodology to employ.

Much of corporate governance research focuses on particular reported statistics such as board composition, or board meeting frequency and economic outcomes such as improved financial performance or changes to CEO compensation structures. Yet as with other types of managerial research, corporate governance operates at an individual, group and firm level. Studying firm-level outcomes that relate to individual-specific matters such as CEO duality may be misleading, and it would be useful to consider the multi-level nature of corporate governance when researching into how it is reported (Dalton & Dalton, 2011). In addition, much of corporate governance research is conducted at an economic rather than an institutional level (Schiehll & Martins, 2016), and even if it is conducted at a firm level it focuses predominantly

on large firms, which have clearer agency structures and different governance issues compared to SMEs (Satta et al., 2014).

Traditionally, research into corporate governance takes an agency view of the firm, following (Jensen & Meckling, 1976), although recent developments towards the reporting of more non-financial information, including movements towards Integrated Reporting, suggest that other theories, such as stakeholder theory and stewardship theory, may be worthy of further consideration. Different corporate governance regimes globally may also make agency theory of less use, as it is reflective of an Anglo-American view of firms (Habib & Jiang, 2015). Considering the role of the board as a provider of resources, as well as just a monitor of managers, may mean that resource-dependency theory also yields useful insights (Endrikat et al., 2020).

Reporting on corporate governance is also linked to developments in other types of corporate reporting, in particular non-financial reporting. Both mandated changes (such as the recent EU Directive on non-financial reporting) and voluntary disclosures required for other purposes, such as CSR or sustainability, may yield useful insights into corporate governance and may also develop corporate governance reporting. It may also be interesting to study whether or not major global events such as the Covid-19 pandemic lead to changes in corporate governance disclosures as many companies face periods of substantial economic disruption, and therefore increased stakeholder scrutiny.

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