DOES GOOD CORPORATE GOVERNANCE LEAD TO BETTER FIRM PERFORMANCE? STRATEGIC LESSONS FROM A STRUCTURED LITERATURE REVIEW

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OPEN ACCESS

How to cite this paper: Khan, B., Nijhof, A., Diepeveen, R. A., & Melis, D. A. M. (2018). Does good corporate governance lead to better firm performance? Strategic lessons from a structured literature review. *Corporate Ownership & Control, 15(4),* 73-85. http://doi.org/10.22495/cocv15i4art7

ISSN Online: 1810-3057
ISSN Print: 1727-9232

Received: 01.05.2018
Accepted: 05.07.2018

JEL Classification: M12
DOI: 10.22495/cocv15i4art7

Abstract

The objective of this paper is to disclose proven relationships between good corporate governance variables and the financial and/or non-financial performance of companies based on a meta-analysis of relevant studies. A meta-analysis was performed by means of academic research published between 2006 and 2016 in the five highest-ranked academic journals according to the Association of Business Schools (ABS) ranking. The relevant academic studies were selected on the basis of the relationship between corporate governance and performance. Our study provides evidence for the correlation between five corporate governance variables (board independence, board diversity, CEO characteristics, remuneration and oversight) and company performance. Furthermore, several mediating and moderating factors influencing the relationship between corporate governance variables and company performance were identified in this meta-study. The overview of corporate governance variables and their relation to company performance serves as input for a better understanding of this relationship and subsequently the ongoing dialogue on enhancing corporate governance in practice.

Keywords: Corporate Governance, Company Performance, Environmental Performance, Board Diversity, CEO Characteristics, Board Independence, Remuneration, Oversight.

Acknowledgements: This study is based on a joint research project of Deloitte and Nyenrode Business Universiteit. The authors are especially grateful to the contributions of Wim Eysink, Arjan ten Cate, Denise Valkering and Eline van der Lugt of Deloitte Risk Advisory B.V. and to Kaushik Sen, Megha Nanda, Ishu Mehta, Henk Kievit and Hanna Waltsgott of Nyenrode Business Universiteit.

1. INTRODUCTION

In the debate about corporate governance, it is often claimed that good corporate governance contributes to better company performance (Rechner & Dalton, 1991; Bozec et al., 2010; Walls et al., 2012). But to what extent is academic evidence available to prove this claim? And what can be perceived as good corporate governance when it comes to proven relationships with aspects of company performance? The purpose of this article is to explore the academic evidence for a correlation between certain aspects of corporate governance and company performance.

In order to do so, this study builds upon a broad definition of corporate governance. Corporate governance is the organizational process through which the company's objectives are defined, and through which the means of attaining those objectives and monitoring performance are determined (Melis, 2014). Corporate governance as an academic concept includes the division of roles and responsibilities, communication channels and behaviour between shareholders, board(s) of directors (both executives and non-executives) and the CEO (Hendry, 2001; Tricker, 2004). Company performance is defined as the financial and non-financial results stemming from the activities of a company (Klijn et al., 2013). Although both concepts are still very broad at the start, this allows for a focus within the study on the distinct dimensions of both corporate governance and company performance.

There are several theories that dominate the academic-corporate governance debate. Most scholars refer to agency theory, but stewardship theory and stakeholder theory are increasingly used to explain the dynamics between the different actors involved in a company (Melis, 2014; Almadi & Lazic, 2016).

The agency theory assumes potential conflicts of interests to exist between the different actors involved in the company. An agency problem exists if a principal (i.e. the shareholder), employs an agent (i.e. the management) to lead the company on the principal's behalf (Jensen & Meckling, 1976). Managers and shareholders potentially have conflicting interests. Therefore, corporate governance mechanisms such as monitoring, incentivising and sanctioning processes are needed to align the interests of the agent with those of the principal. A clear example is the shareholders' right to vote in the general meeting.

Stakeholder theory, instead, assumes that good performance of companies depends on the contributions of many different actors. These stakeholders – including shareholders, but also employees, banks, society and other actors – all have an interest in the company and can choose to engage with the company based on the information they have about the company. It is the responsibility of management to balance all these interests (Freeman, 1984). At the same time, these stakeholders will try to influence management to prioritise their interests, goals, and expectations. Therefore, corporate governance processes are needed to make sure that the voices of different stakeholders are heard and that information about the company is distributed fairly to all stakeholders. Where both agency theory and stakeholder theory assume different or even conflicting interests, stewardship theory assumes that management and shareholders place the long-term best interest of collective goals of the company ahead of goals that serve an individual's self-interest (Hernandez, 2012). Stewards, unlike agents in the agency theory, consider their interests to be in line with the interests of the company and its shareholders. Furthermore, managers as stewards are in the best position to maximize the interests of stakeholders, including shareholders, since they are most familiar with the dynamics of corporate strengths, weaknesses, opportunities, and threats (Davis et al., 1997). Corporate governance mechanisms in this theory entail the selection and training of competent and trustworthy managers as well as processes to bind all parties to work towards a common goal without taking advantage of each other.

Table 1. Overview of different schools of thought on corporate governance

Economic theories	***The function of corporate governance***
Agency theory	Following agency theory, corporate governance – in the form of rule setting, monitoring and incentive and sanctioning processes – is needed to align interests.
Stakeholder theory	Following stakeholder theory, corporate governance – in the form of appropriate communication channels, representation and balanced decision making – is needed to inform and involve all stakeholders.
Stewardship theory	Following stewardship theory, corporate governance – in the form of selecting and training competent and trustworthy managers, transparency and justification processes – is required to commit all parties to work towards a common goal.

These three theories (Table 1) are not mutually exclusive or collectively exhaustive, but they provide different explanations for the relationships between different actors within a corporate governance context and the corporate governance mechanisms used. As such these different schools of thought are reflected in the corporate governance variables that proved to be relevant in relation to company performance.

The remainder of this study is organised as follows: Section 2 describes the methodology of this study. Section 3 elaborates on the different corporate governance variables and the main findings of this study. Section 4 describes the results of the validation process. Section 5 concludes this paper and provides recommendations for further research.

2. METHODOLOGY AND RESULTS OF THE SELECTION

This paper is based upon a qualitative meta-analysis of 59 academic articles on the relationship between good corporate governance and company performance, published in top-ranked journals, using the ranking of the Chartered Association of Business Schools (ABS).

This qualitative meta-analysis attempts to conduct a rigorous analysis of secondary data. Its purpose is to provide a more comprehensive description of the relationship between good corporate governance and company performance. By using meta-analysis, the insights of distinct studies are analyzed on an aggregated level, combining the results of academic research in order to come to a better understanding of governance as an overarching concept (Walls et al.,2012).

The selection of the articles is based on several criteria, ranging from the journal and year of publication, keywords in the abstract and finally, the direction of the relation studied. To ensure the quality of the articles, only top-ranked journals are selected. For this, we used the ranking of the Chartered Association of Business Schools (ABS) as it ranks the articles based on peer review, statistical information related to citation and editorial judgments from the detailed evaluation of hundreds of publications over a long period of time. The top 5 journals are:

- Strategic Management Journal;
- Academy of Management Journal;
- British Journal of Management;
- Journal of Management Studies;
- Journal of Business Ethics.

For the year of publication, the study included all papers published between 2006 and 2016. As this study focuses on the influence of good corporate governance on performance the keywords "Governance" AND "Performance" had to be included in the abstract of the academic articles. These first selection criteria resulted in 185 articles.

Out of this first selection, 104 articles were accessible through the databases used. Based on a first reading of the abstracts another 45 articles were excluded because the description showed that the term "Governance" was not used in relation to corporate governance or because the term "Performance" was not used in relation to company performance. This resulted in 59 articles, describing 120 relations between corporate governance and company performance. For all the articles that were reviewed, the meta-data was encoded in order to provide insight in the context and quality of the academic articles studied and about the strength and direction of the relationships between dimensions of corporate governance and company performance.

In most articles (71%) there was no specific industry focus, at least this was not specified. In the other 29% of the articles, there was a focus on Manufacturing (Man), Public Sector (PS), Telecom, Media and Technology (TMT) or the Financial Service Industry (FSI). The articles mostly covered listed companies (77%), in some cases non-listed companies (21%) and in only a few articles a specific kind of company (family company) was mentioned. In 97% of the articles, a quantitative research method was used, implying that only in a few articles a qualitative research method or review was used.

The meta-analysis was based on a two-step approach. In the first step, the main dimensions of corporate governance were identified that had a proven relationship with some indicators of company performance. The second step focused on identifying the main mediators and moderators that have an effect on these relationships. The results of the second step are presented in the next paragraph, while the results of the first step are presented in Table 2.

Table 2. Dimensions of corporate governance with a strong correlation with company performance

Dimension of corporate governance	***Definition***	***Number of articles***
Board diversity	A variety in the composition of the board of directors and such variations may be categorized in two ways, namely the directly observable ones (e.g. nationality, age, gender and ethnic background) and the less visible ones (educational, functional and occupational background) (Mahadeo, Soobaroyen, & Hanuman, 2011).	6
Board independence	Directors in a non-executive board who are not affiliated with the executives of the company and have minimal or no business dealings with the company (Mahadeo et al., 2011).	12
CEO characteristics	The personality traits, demographic aspects and network aspects of the person fulfilling the role of the highest-ranked executive of a company (Sundaramurthy, Pukthuanthong, and Kor, 2013; Crossland et al., 2007).	11
Remuneration	The compensation paid to executives and non-executives under the terms of their contract (Kanagaretnam, Lobo, & Mohammad, 2009).	13
Oversight	The adoption of control processes by the board of directors to ensure that management's behaviour and actions are executed in an efficient and correct way (Filatotchev & Nakajima, 2010; Mallin, Michelon, & Raggi, 2013).	5
Other topics	Other dimensions of corporate governance included in the articles of this meta-analysis are board committees, the role of accountants, Ownership structure, CEO duality and recruitment of executives.	19

To validate the findings of this meta-analysis, 10 interviews were held with management board members (4) and supervisory board members (6) of Dutch companies (listed companies, public limited liability companies, private limited liability companies, a foundation, a cooperation, and two family-owned firms). The objective of these interviews was to investigate if the outcomes of this meta-study were recognized by these board members. All interviewees received the draft version of the meta-study to prepare for the interview. During the structured interviews, interviewees were questioned about whether the interviewees recognized the results for each of the six selected corporate governance mechanisms, and if not, what differences they noticed in their practice.

In the following sections, the corporate governance literature is critically reviewed for each variable (i.e., board diversity, board independence, CEO characteristics, remuneration and oversight). Each section includes a table which summarizes the predictors, outcomes, mediators, and moderators from the journal articles.

3. RESULTS AND DISCUSSION

The corporate governance variables 'board diversity', 'board independence', 'CEO characteristics', 'remuneration' and 'oversight' were found to have a relation to company performance. In the sections, the main results are presented.

3.1. Board diversity

Board Diversity does not have an overall positive or negative effect on the performance of the company as the effect of diversity on companies' performance depends on many factors, including several moderating and mediating factors.

Board Diversity is defined as a variable in the composition of the board of directors and such variations may be categorized in many different ways, e.g. nationality, age, gender, ethnic background, and the educational, functional and occupational background of board members (Mahadeo et al., 2011). Board diversity and its effect on the company's financial performance has been a topic of extensive research by academics and researchers (Ben-Amar, Francoeur, Hafsi, & Labelle, 2013; Mahadeo et al., 2011; Francoeur, Labelle, & Desgagné, 2008). As the board composition, can influence the quality of monitoring role and decision-making process, it is often believed that performance of a company is directly related to the diversity of its board (Ben-Amar et al., 2013; Cambrea et al., 2017).

Table 3. Overview of the predictors, mediators, moderators, and outcomes of board diversity

	Predictors of corporate governance	*Mediators of CG and outcomes relationship*	*Moderators of CG and outcomes relationship*	*Outcomes of corporate governance on company performance*
Board Diversity	• Demographic Diversity (Gender, age, educational background, tenure, Cultural diversity, board size) (Ben-Amar et al., 2013; Francoeur et al., 2008; Mahadeo et al., 2011). • Statutory Diversity (regulated or recommended governance principles, favouring a higher proportion of outside directors and the separation of CEO and chairperson of the board, (Ben-Amar et al., 2013). • Knowledge Diversity of the board (Andrés-Alonso et al., 2010).	• Merger & Acquisition Decisions (Ben-Amar et al., 2013). • Effective strategic and operational decisions (Mahadeo et al., 2012). • Openness (Campbell et al., 2008). • Understanding of corporate resources and management practices by directors (…). • Less Environmental Concerns (like pollution) (Walls et al., 2012). • Reduction in agency costs.	• Ownership Structure – Institutional, family and corporate block holders (Ben-Amar et al., 2013), (Mahadeo et al., 2011). • Shareholder concentration (Walls et al., 2012). • Shareholder Activism (Andre´s-Alonso et al., 2010). • High institutional ownership (Walls et al., 2012). • Board Size – Larger boards are needed to accommodate educationally diverse boards (Mahadeo et al., 2011). • Pressure from political initiatives, large institutional investors, and consumer groups (Campbell et al., 2008)). • Ethical reasons (Campbell et al., 2008)). • Political affiliation of Supervisory board members (Domadenik et al., 2016).	• M&A performance as calculated by CAR (Cumulative Abnormal Returns) (Ben-Amar et al., 2013). • ROA (Mahadeo et al., 2012). • ROE, Alpha (abnormal returns) (Francoeur et al., 2008). • Tobin's Q (Campbell et al., 2008). • Social Performance in terms of community benefits (Ge Bai, 2013). • Administrative and allocative efficiency (Andrés-Alonso et al., 2010). Environmental Performance • (Walls et al., 2012). • Total Factor Productivity (TFP) (Domadenik et al., 2016).

Effects of Board Diversity

According to Ben-Amar et al. (2013), demographic diversity is found to have a direct and non-linear effect on the Merger & Acquisition performance of the company. Due to group cohesion issues, in the beginning, demographic diversity shows a negative effect on the strategic decision making, but after a certain period of time, it shows positive effect due to the board's enhanced management knowledge and ability to make complex decisions. High level of statutory diversity has shown a negative influence on a company's performance for institutional and family-owned companies but has a positive effect on widely held companies (Ben-Amar et al., 2013).

A study in Spain on gender diversity shows that a higher percentage of women on the board will result in better company performance (Campbell et al., 2008). Similarly, a higher percentage of women on the board improves the environmental performance of the company. On the other hand, in complex environments with very high beta and market to book ratios, a high proportion of women on the board and in company's top management does not seem to have a positive effect on company's financial performance.

According to Mahadeo et al. (2011), diversity has both positive and negative impacts on the company's performance. On the one hand, the educational background of the board seems to have a negative impact on the Return on Assets (ROA) of the company whereas, on the other hand, the age and gender diversity affects the ROA in a positive way.

The relationship between board diversity and company's performance varies due to the moderating effects of ownership structure (Ben-Amar et al., 2013). Diversity can either have a specific or generalized effect on the company's performance based on the type of ownership of the company (Ben-Amar et al., 2013). For example, high level of statutory diversity and demographic diversity can have a negative impact on the company's performance in case of family and institutional ownership. According to Ben-Amar et al. (2013), the effect of ownership structure highly affects the strategic decision making if the level of statutory or demographic diversity is either too high or too low. For example, at lower levels, demographic diversity is positive for institutional owners and families, but at higher levels, family companies are affected adversely.

Furthermore, shareholder concentration and institutional ownership prove to be an important moderator. According to Walls et al. (2012), when there was a high percentage of women on the board, the environmental performance improved, especially when the institutional ownership and shareholder concentration was high.

3.2. Board independence

Board Independence has positive and negative effects on the performance of the company.

Board independence is defined as the situation where directors in a non-executive board are not affiliated with the executives of the company and have minimal or no business dealings with the company (Mahadeo et al., 2011). As a consequence, independent board members are expected to have no conflict of interests. According to Filatotchev et al. (2010), one of the most important fields of research in finance and management is the effect of board independence on organizational performance.

The importance of board independence can be explained by agency theory, which addresses the issues arising from the separation of ownership and control (Filatotchev et al., 2010). It is often assumed that a higher proportion of independent directors on board is an important vehicle of 'good' corporate governance. Independent directors are more likely to listen to shareholder's claims and to provide monitoring incentives as independent directors have less to lose from scrutinizing and evaluating management (Wincent, Thorgren, & Anokhin, 2013). According to Wincent et al. (2013), the agency framework assumes that an independent board leads to higher performance.

Table 4. Overview of the predictors, mediators, moderators, and outcomes of board independence

	Predictors of corporate governance	***Mediators of CG and outcomes relationship***	***Moderators of CG and outcomes relationship***	***Outcomes of corporate governance on company performance***
Board Independence	• Board Independence (board of directors independent from the management) (Andrés-Alonso et al., 2010; Bozec et al., 2008; Nowland, 2008; Mahadeo et al., 2011; Harjoto & Jo, 2011; Walls et al., 2012; Domadenik et al., 2016; Hussain et al, 2016). • Board Composition (Independence of board of directors, audit committee, compensation committee, and nominating committee); (Harjoto et al., 2011). • Splitting the position of CEO and Chairman (Nowland, 2007).	• Administrative efficiency (administrative costs divided by total costs) (Andrés-Alonso et al., 2010). • Network Performance (the extent to which network member companies were able to access the value from the network in terms of reducing costs and fine-tuning existing products and services (i.e. incremental, process-related innovation) new product development and improvements in the R&D process (i.e. radical and product-related innovation). • CSR as product differentiation, first mover advantage and competitive advantage (Harjoto et al., 2011). • Business links to outside the focal company (Filatotchev et al., 2010) • Human Capital independent board members (Filatotchev et al., 2010) • Social Capital of independent board members (reputation, trust, and mutual interdependence) (Filatotchev et al., 2010)	• Company's life cycle stages (establishment, growth, maturity, and decline). • Legal requirements. • Investor's reward from the capital market (Harjoto et al., 2011). • Consumer reward from product market (Harjoto et al., 2011). • Political affiliation of Supervisory board members (Domadenik et al., 2016).	• Company's efficiency (as calculated by DEA data envelopment analysis) (Bozec et al., 2008). • ROA and Tobin's Q. • Environmental Performance (environmental strength and environmental concern) (Walls et al., 2012). • Environmental performance (Waste and Toxic Waste) (Kock et al., 2012). • KLD's SOCRATES database (Social Performance). • Operating performance (Nowland, 2007). • Company value (Nowland, 2007). • Total Factor Productivity (TFP) (Domadenik et al., 2016). • Environmental Sustainability Performance (Hussain et al., 2016). • Social Sustainability Performance (Hussain et al., 2016).

Effects of Board Independence

According to Andrés-Alonso et al. (2010), increasing board independence has a detrimental effect on the company's efficiency and value creation. The study results are contrary to the 'codes of best practices' which favours increasing the number of non-executives on the board. It can be concluded that even though board independence improves the board monitoring function and objectivity, it negatively affects the administrative efficiency and value of the company.

According to research by Mahadeo et al. (2011), board independence has a negative impact on company performance. It was found that the corporate governance code's requirements may compel companies to appoint independent directors instead of focusing on competence thus leading to poor performance of the company in terms of Return on Investment (ROI).

Similar results were shown in a study performed by Harjoto et al. (2011), which revealed that board independence has a negative effect on company performance. However, when board independence was considered jointly with Corporate Social Responsibility (CSR) initiatives, it had a positive effect on company performance. When directors use CSR activities as a means to resolve conflicts between the management and stakeholders, it positively affects the company's value. As per Kock et al. (2012), the proportion of independent directors has a negative impact on a measure of waste (also in terms of toxic waste), which suggests that board independence causes boards to pay more attention to the environmental issues and thus results in a better approach towards the environment.

The lifecycle of the company plays a very important moderating role between board independence and the company's performance. According to Filatotchev et al. (2010), the monitoring role played by independent directors may not be important for growing companies but is very important for mature companies.

As we see from the table above the human and social capital of the independent directors plays an important role to improve the company's performance. The diverse knowledge and the experience of the independent directors help to bring a fresh perspective in terms of R&D activities and innovation ideas, hence improves the company's performance. Independent directors also bring an increased network of outside connections from other companies which create interdependency among the companies, improves trust and reputation and hence increases the company's performance. (Filatotchev et al., 2010). Similarly, the oversight function performed by the independent board of directors helps in reducing the agency costs and thus improves the performance of the company.

3.3. CEO characteristics

A positive relation was found between CEO characteristics (i.e. experience, current membership in boards, scientific background, and CEO duality) and firm performance.

How the top executives affect the performance of a company, has been a question of great interest to researchers (Crossland et al., 2007). Do CEOs really matter in affecting the company performance? According to Crossland et al. (2007), CEOs in America, as compared to CEOs in other countries, exercise more influence on the performance of their companies. One way how to study the influence of CEOs on the performance of companies is by measuring specific characteristics of CEOs, such as educational background, experience, network and personality traits. CEO characteristics as an academic concept are therefore defined as the personality traits, demographic aspects and network aspects of the person fulfilling the role of the highest-ranked executive of a company (Sundaramurthy et al., 2013; Crossland et al., 2007)

Corporate scandals of companies like Enron and WorldCom have raised questions on the roles of CEOs and produced a rage at the actions of top executives (Haleblian & Rajagopalan, 2006). According to Del Brio, Yoshikawa, Connelly and Tan (2013), agency theory assumes that there is a lack of trust and separation of interests between the board members and CEO. From an agency theory point of view, CEOs take decisions for their own personal interest at the expense of the shareholders (Iyengar & Zampelli, 2009).

Table 5. Overview of the predictors, mediators, moderators, and outcomes of CEO characteristics

	Predictors of corporate governance	*Mediators of CG and outcomes relationship*	*Moderators of CG and outcomes relationship*	*Outcomes of corporate governance on company performance*
CEO Characteristics	• CEO's Social Capital (Sundaramurthy, 2013). • CEO's Human Capital (Sundaramurthy et al., 2013). • CEO accumulated public company may experience. (Sundaramurthy et al., 2013). • CEO's current board membership (Sundaramurthy et al., 2013). • CEO's scientific background (Sundaramurthy et al., 2013). • CEO's industry experience (Sundaramurthy et al., 2013). • CEO Duality (Iyengar et al., 2009; Walls et al., 2012; Hussain et al., 2016). • CEO Organizational Identification (Mcdonald et al., 2008). • CEO Power (Either CEO is the chairperson or the founder of the company) (Galema et al., 2012).	• Advice seeking behaviour of CEO. • CEO's risk-taking behaviour (Galema et al., 2012).	• Current performance of the company (Sundaramurthy et al., 2013). • The maturity of companies (young or old) (Sundaramurthy et al., 2013; Galema et al., 2012). • Current Performance of company (low or high) (Sundaramurthy et al., 2013). • Director's accumulated public company experience. (Sundaramurthy et al., 2013). • Director's current board membership experience (Sundaramurthy et al., 2013) • Director's scientific background (Sundaramurthy et al., 2013). • Board Independence (Iyengar et al. 2009). • Board Size (Iyengar et al., 2009). • CEO stock ownership (Iyengar et al., 2009). • Less independent board (Walls et al., 2012). • High institutional ownership (Walls et al., 2012).	• Share price growth (Nowland, 2007). • ROA (Nowland, 2007). • IPO performance. • (Sundaramurthy et al., 2013). • CEO stock ownership (Iyengar et al., 2009). • ROA (Galema et al., 2012). • Environmental Performance Walls et al., 2012). • Environmental Sustainability Performance (Hussain et al., 2016).

Effects of CEO Characteristics

According to Sundaramurthy et al. (2013), CEO's past experience in serving public companies board has a positive impact on Initial Public Offering (IPO) performance. The experience will enable the CEO to face the challenges of managing a public company. Similarly, a CEO's scientific background has a positive effect on IPO performance. CEO's background similar to the board's scientific background will enable them to collaborate more successfully.

The presence of CEO on multiple company boards has a negative impact on IPO underpricing (Sundaramurthy et al., 2013). Serving on many boards at the same time increases the pressure on CEOs as it requires a significant amount of time. Similarly, CEO's industry experience has a positive or negative impact depending on the age and/or the current performance of the company. For example, in well-performing companies, CEO industry experience has a negative impact on the company.

According to Nowland (2007), splitting the board's positions and the role of the chairman has a positive effect on share price growth. It also suggests that if the two key leadership positions are split, it has a positive impact on the ROA of the company. East Asian companies have shown direct evidence of the fact that there are benefits to implementing these specific board governance processes.

As we see from the table, not many mediators were observed for CEO Characteristics and company performance. CEO advice-seeking behaviour has a positive effect on the CEO and performance relationship. CEO's who seek advice from their board and from their network will result in better communication and will improve IPO performance. Also, CEO duality results in the more risk-taking behaviour of the CEO which leads to decreased performance of the company.

Maturity and the current performance of the board seem to be very important moderators between CEO – performance characteristics. Older and well-performing IPO companies are confronted with a negative moderating effect if the CEO and the board possess deep industry-specific experience. As older and stronger-performing companies are more prone to complacency, inertia, and strategic persistence (Janis, 1982; Kisfalvi, 2000), the shared and heavily used industry knowledge and interindustry ties may be resulting in tunnel vision or reinforcement of industry recipes. Weak-performing companies experienced positive synergistic effects associated with the CEO's and board's industry experiences. For younger IPO companies, both the CEO and the board possessing deep biotech experience appear to be redundant. Insider directors have a positive moderating effect, as powerful CEO may be good for the environment if the board is less independent and supportive. The technical expertise of the board will help the CEO to take environmental decisions.

3.4. Remuneration

A positive relation was found between remuneration and firm performance when it regards remuneration in the form of shares for the directors or linking the pay to performance.

Remuneration in the context of a study on corporate governance is defined as the compensation paid to executives and non-executives under the terms of their contract (Kanagaretnam et al, 2009). According to agency theory manager's personal goals often diverge from the objectives of the shareholders and managers frequently exploit their role for personal benefits (Mcdonald, Khanna, & Westphal, 2008; Makri et al., 2006). Designing a remuneration policy on outcome-based incentive plans or pay for performance plans in order to motivate the executives to take appropriate risks, align the interests with shareholders and to work towards long-term growth instead of short-term financial gains (Makri et al., 2006) and are beneficial for the shareholders.

Table 6. Overview of the predictors, mediators, moderators, and outcomes of remuneration

	Predictors of corporate governance	*Mediators of cg and outcomes relationship*	*Moderators of cg and outcomes relationship*	*Outcomes of corporate governance on company performance*
Remuneration	• CEO Stock options or Long term pay (Makri et al., 2006; Kanagaretnam et al., 2009; Berrone et al., 2009; (Walls et al., 2012); Mcdonald et al., 2008). • CEO bonus (Makri et al., 2006). • Environmental incentive in executive compensation. • CEO Salary (Walls et al., 2012). • CEO Bonus (a measure of short-term pay incentives); (Walls et al., 2012; Berrone et al., 2009). • CEO Performance contingent compensation (Mcdonald et al., 2008). • Type of stock option plan owned by directors (Bozec et al.,2010). • Loans to directors and officers (Bozec et al.,2010). • Network Board Compensation (measured as the ratio of board officers who received direct economic benefits from projects in the network to the total number of board officers in the network). • CEO Equity Pay (CEO's ratio of annual equity-based pay). • CEO Equity Ownership (percentage of company shares owned by the CEO).	• (+) CEO advice-seeking behaviour (Mcdonald et al., 2008). • (+) Science harvesting (Berrone et al., 2009). • (+) Innovation Resonance (Berrone et al., 2009).	• The lifecycle of the company (stagnant or growth based on sales growth, net investment and retained earnings to total equity) (Kanagaretnam et al., 2009). • CEO Duality (Kanagaretnam et al., 2009). • Industry Sector (High or low pollution sectors) (Berrone et al., 2009). • Board Size. • Non-executive members, Non-executive chairperson and compensation committee dominated by Non-executive director (Capezio et al., 2011). • Network age (measured as the number of years). • Since the network formed. (Rodrigue et al., 2012). • Technical Intensity of the company (Berrone et al., 2009).	• Pay-Performance Sensitivity {Pay-performance sensitivity can be viewed as a measure of incentive alignment, a measure that reflects the sensitivity of changes in award values to changes in company value} (Kanagaretnam et al., 2009). • ROA (Mcdonald et al., 2008; Capezio et al., 2011; (Kanagaretnam et al., 2009). • ROE (Capezio et al., 2011; Berrone et al., 2009). • DEA to measure Technical efficiency {A company is designated efficient if no other company can produce more outputs by using an equal or smaller quantity of inputs, or if no other company can use fewer inputs to produce an equivalent or higher quantity of outputs.} (Bozec et al., 2010). • Tobin's Q (Bozec et al., 2010). • Environmental performance (Kock et al., 2012; Berrone et al., 2009; (Rodrigue et al., 2012)). • Market to book value of Equity (Mcdonald et al., 2008; Berrone et al., 2009). • Network performance {the extent to which network member companies were able to access the value from the network in terms of reducing costs and fine-tuning existing products and services (i.e. incremental, process-related innovation) and their performance in terms of new product development and improvements in the R&D process} (Rodrigue et al., 2012).

Effects of Remunerations

CEO stock ownership and CEO performance contingent compensation have positive effects on ROA and market to book value of equity (Mcdonald et al., 2008). Similarly, Bozec et al. (2010), showed in their studies that stocks owned by directors and CEOs have positive impacts on the technical efficiency of the company. Similar results were shown in the studies by Berrone et al. (2009) and Kock et al. (2012), where the CEO stock options have shown positive effects on environmental performance, thereby significantly preventing pollution for companies operating in highly polluting industries. Also, according to Makri et al. (2006), and Wincent et al. (2013), aligning CEO and board incentives to the financial results have a positive impact on the network performance and performance of the technology-intensive companies.

Contrary to the above results, the study of Capezio et al. (2011) found no support that incentive alignment leads to better performance. CEO pay per performance showed no significant relation with the ROA and Return on Equity (ROE). Kanagaretnam et al. (2009), showed that for stagnant companies the effect of CEO stock ownership has a negative impact on company performance. Also, stagnant companies show lower pay-performance sensitivity (weaker incentive alignment), which diminishes the usefulness of stock ownership to motivate CEOs. Contrary to Berrone et al. (2009), according to Walls et al. (2012) and Rodrigue et al. (2012), higher CEO salary has a detrimental effect on the environmental performance of the company, because when the fixed component of compensation is large the CEOs avoid taking risky decisions to enhance short-term financial performance.

According to Mcdonald et al. (2008), networking behaviours of the executives mediated the relationship between the corporate governance processes and company performance. Mcdonald et al., (2009), showed in their study that CEO advice seeking from the executives with different functional backgrounds and who are no friends positively mediates the relationship between CEO stock ownership, CEO performance contingent pay and company performance. Advice seeking behaviour provides different points of view and hence improves the CEO ability to take better strategic decisions for the company.

According to Capezio et al. (2011), non-executive members, non-executive chairman, and compensation committee dominated by non-executive directors moderates the relation between CEO pay and company performance. The study of Capezio et al. (2011), showed that having non-executive directors positively moderates the relationship, whereas having a non-executive chairperson has a negative impact on the relationship between CEO pay and company performance. Similarly having a compensation committee dominated by non-executive directors showed no significant moderating effects on the relationship. This showed that, unlike growth companies, in stagnant companies' stock option granted to CEOs is motivated more by weak corporate governance processes than by economic fundamentals.

Environmental governance processes also moderate the relationship between CEO pay and environmental performance (Berrone et al., 2009). According to Berrone et al. (2009), environmental governance processes like environment committees negatively moderates the relationship as certain governance processes are kept in place as a response to institutional pressures and are not able to deal with the pressure of redesigning the plant to reduce pollution.

Longstanding networks in terms of how many years the networks exist have a moderating effect upon board compensation and network performance. According to Rodrigue et al. (2012), network age has a weakening effect on the link between board compensation and performance and thus shows that board compensation is more important for less mature networks.

3.5. Oversight

Oversight has a positive effect on a firm's performance.

The recent financial crisis has eroded the trust of investors and undermined the confidence in capital markets (Filatotchev et al., 2010). The board is responsible for taking well informed strategic decisions and be engaged in oversight for long-term financial performance (Mallin et al., 2013). According to Filatotchev et al. (2010), in line with agency theory, the board represents the owners of a company and thus is responsible for adopting control processes to ensure that management actions are aligned with the interests of the owners. By executing their control function, boards are also able to coordinate activities better (Klijn et al., 2013). According to Andrés-Alonso et al. (2010), traditional agency theory defines the monitoring effectiveness of the board in terms of size and independence. By engaging effectively in oversight, companies will be able to better anticipate social and environmental risks, find more business opportunities and thus will have a better reputation (Mallin et al., 2013). Therefore, oversight is defined in this meta-study as the adoption of control processes by the board of directors to ensure that management's behaviour and actions are executed in an efficient and correct way (Filatotchev et al., 2010; Mallin et al., 2013).

Effects of Oversight

A consistent finding regarding the outcomes of oversight processes is an improvement in a company's performance (Mallin et al., 2013; Klijn et al., 2013; Kock et al.,2012). Mallin et al. (2013), studied 100 companies listed in the 'Business Ethics 100 Best Corporate Citizens' from 2005 till 2007. To the contrary of agency theory prediction that stronger monitoring would be associated with lower corporate social performance, they found that monitoring intensity of the board has a positive effect on the social performance of the company. Mallin et al. (2013), explained that monitoring intensity of the board protects the shareholder's interests by limiting the managerial opportunism and thus also helps in building a positive reputation of the company.

A positive effect of oversight has been found, for example, market to corporate control, legal and regulatory function and stakeholder's orientation in the board's decisions. Kock et al. (2012) found in their study that market for corporate control - in terms of equity markets facilitating corporate takeovers – has a positive impact on the environmental performance of the company. When managers are exposed to the market for corporate control, the risk of losing their position in the company makes them listen to stakeholder's demands for sustainable business practices and hence leads to better environmental performance. Similarly, when managers are more exposed to legal and regulatory stakeholders they tend to incorporate more demands of stakeholders for better environmental practices. This shows the positive influence of legal actions on the environmental performance of the company.

Table 7. Overview of the predictors, mediators, moderators, and outcomes of oversight

	Predictors of corporate governance	*Mediators of cg and outcomes relationship*	*Moderators of cg and outcomes relationship*	*Outcomes of corporate governance on company performance*
Oversight	• Monitoring intensity of the board (Filatotchev et al., 2010; Mallin et al., 2013). • Monitoring Governance (presence of ID, Investment managers, CEO duality and ownership concentration) (Mallin et al., 2013). • Board's involvement between parent and IJV (Klijn et al., 2013). • Exposure to Market for corporate control (i.e hostile takeover of underperforming companies) (Kock et al., 2012). • Legal and regulatory system (Kock et al., 2012). • Representation of stakeholders on the corporate board (Kock et al., 2012). • Monitoring by institutional investors (Harjoto et al., 2011).	• (+) Companies commitment towards CSR (Mallin et al., 2013). • Influence of Stakeholders on the board (Kock et al., 2012; Klijn et al., 2013).		• Corporate Social Performance (Filatotchev et al., 2010; Mallin et al., 2013). • IJV Performance (Klijn et al., 2013). • Environmental performance (Kock et al., 2012). • ROA (Harjoto et al., 2011).

As we see from the table above, the stakeholder's influence positively affects the relationship between oversight and company environmental performance. A greater influence of stakeholders on corporate boards will influence the board to use a more sensitive approach towards environmental practices eventually leading to better environmental performance (Kock et al., 2012). Also, to improve the reputation, the board will be more willing to adopt the CSR activities, which will result in a positive relationship between the monitoring processes and the company performance (Mallin et al., 2013).

4. VALIDATION WITH INTERVIEWS

To validate the findings of the meta-analysis, 10 interviews were held with management board members (4) and supervisory board members (6) of Dutch companies. The companies of these board members had different juridical entities: some listed companies, public limited liability companies, private limited liability companies, a foundation, a cooperation, and two family firms. The objective of these interviews was to investigate if the outcomes of this meta-study were recognized by these board members. It is important to take into account that the board members interviewed for this study were all working in the Netherlands. All interviewees received the draft version of this meta-study to prepare for the interview. During the semi-structured interview questions were asked about whether the interviewees recognized the results for each of the six selected corporate governance variables, and if not, what differences they noticed in their practice. In this section, the most remarkable outcomes of these interviews are presented.

Board Diversity

The meta-analysis shows that in most articles a positive relationship could be found between board diversity and a company's performance. It is remarkable that board diversity could have a positive impact on firm performance, but if diversity is determined by norms or laws (statutory diversity), it has a limited influence on firm performance. The diversity dimension that is taken into account is also of importance for the influence on firm performance. For instance, age and gender have a positive effect, educational background and board independence have a negative effect.

Almost all interviewees agreed with the findings that diversity could have a positive effect on firm performance. In addition, one board member of a family firm explained that if a company has a diverse board, that does not necessarily mean that the board performs well. On the contrary, as the board member explained, a board consisting of board members with the same expertise and background could perform well. One of the interviewees made the remark that the influence of diversity on firm performance could differ among larger and smaller companies. He explained that the governance aspects usually focus on large companies, but it could be different for smaller sized companies. Another board member explained that diversity could be important for solving complex problems since diversity could bring different thoughts to the board table and could, therefore, lead to better decision-making. A few interviewees emphasized that board diversity should not be explained by gender diversity only, other diversity dimensions such as nationality, more stakeholder-oriented persons, experience, and background should also be taken into account.

Board Independence

With regard to board independence, both a positive and a negative relationship were found in the literature on the relationship between independent directors and firm performance. This makes it hard to draw any hard conclusions from the literature concerning the question, whether board independence contributes to better firm performance.

Despite that, according to the interviewees, having independent board members is important. A few board members indicated that they make an effort to have 'outsider' board members, for instance by including in the articles of association that one or more board members should come from outside the company.

CEO characteristics

In most of the literature, a positive relationship could be found between CEO characteristics (i.e. experience, current membership in boards, scientific background, and CEO duality) and firm performance. One interviewee indicated that a more powerful CEO does not lead to better firm performance because he believes that the team is the important factor and not the CEO in itself. Another interviewee highlighted that tone at the top is important when it comes to CEO characteristics because the way the CEO behaves has an effect on how the rest of the staff behaves. The prevalent stakeholder model/Rhineland model that applies in the Netherlands also has an influence on CEO characteristics, because, as explained by two interviewees, in the stakeholder model, there is no room for a powerful CEO. A powerful CEO also depends on the legal form of the company (i.e. a public limited liability company vs. other legal forms).

Oversight

The meta-analysis shows that oversight has a positive effect on a firm's performance. Stakeholder oversight has a positive effect on firm performance in general, as well as on environmental performance. Furthermore, we found that board monitoring has a positive effect on the social and environmental performance of the firm.

The interviews resulted in very contradictory answers: some board members underscored the importance of oversight and some shared some negative experiences.

Remuneration

The meta-analysis found evidence that remuneration could contribute to a better firm performance when it regards remuneration in the form of shares for the directors or linking the pay to performance. This was also stressed by most of the interviewees. However, other studies found out that there is no positive relationship between remuneration and firm performance. Two interviewees did not support our findings that remuneration leads to better firm performance. Another two interviewees stressed that there is a big difference between the various countries, for instance, there is a difference between the Rhineland model and the Anglo-Saxon model and the stakeholder and shareholder model. One interviewee explained that in the Rhineland model performance is mostly not linked to remuneration. For the difference between the stakeholder and the shareholder model, the interests of the stakeholders should also be taken into account when determining the remuneration of the board members.

All in all, the interviewees mostly agreed with the findings of our meta-analysis. The most critical remarks relate to the differences between the 'Rhineland (stakeholder-oriented) two-tier governance model' and the Anglo-Saxon (shareholder) one-tier model (Melis, 2014). Most of the studies targeted companies in the USA and in commonwealth counties. Therefore, the results may be different if the studies were performed in other countries.

5. CONCLUSIONS AND RECOMMENDATIONS

The main objective of this meta-analysis is to find whether corporate governance variables can have an effect on company performance. This study investigated 59 articles to identify the effects of corporate governance on company performance. Out of these 59 articles, six corporate governance processes were detected that have an effect on company performance, which are: (1) board diversity, (2) board independence, (3) CEO characteristics, (4) remuneration, and (5) oversight.

After studying these 59 articles on specific corporate governance processes, it was found that not all the corporate governance processes have significant or positive effects on company performance. For example, a diverse board brings perspective to the company's decisions and hence helps in improving financial performance. However, few studies show that in the short term, board diversity seems to negatively affect the ROA of the company as it disrupts group cohesiveness, shared values and board communication. Similarly, corporate governance favours the presence of independent directors on the board, but studies show that it does not always result in positive effects, and may even negatively affect the performance of the company.

Therefore, this meta-study derived several mediating and moderating factors influencing the relationship between corporate governance and company performance. Figure 1 is capturing all indicators used in the articles of this meta-analysis.

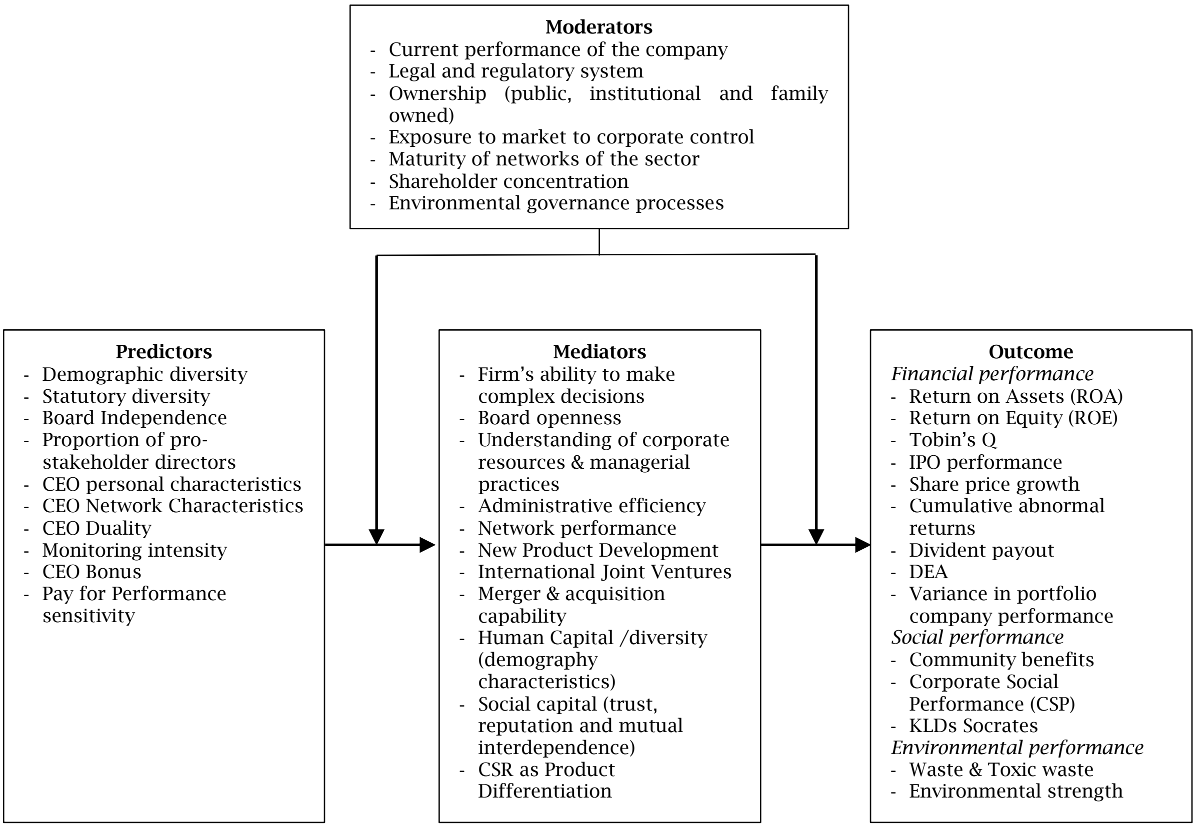
As Figure 1 indicates, the human, social and psychological factors play a very important role in the company's performance and strategic decision making. Studies prove that human dynamics have a very important role in corporate governance. A diverse board in a family owned business may adversely affect the performance of the company because of integration difficulties. Similarly, a CEO who identifies with the company will work with the motivation in the best interest of the company rather than feel controlled by the board.

There are several limitations to this meta-analysis. The companies considered in the articles included in this meta-analysis differ from each other in terms of country of incorporation, culture, industry, lifecycle, ownership and profitability and hence the results might not be the same for companies in other jurisdictions than the ones that were considered for the studies.

This review provides an overview of the past understanding of corporate governance as reviewed studies are set in the past. Most markets are constantly adapting to evolving corporate governance codes and the effect of such efforts will only be measurable in the future. Furthermore, this meta-analysis could not control for potential selection bias of the researchers who chose the various corporate governance concepts for their studies.

Corporate governance can be seen as a function of size, growth, culture, profitability, industry, board composition, and prior corporate governance codes adopted by the company etc. As every company differs from other companies, considering the above factors (like maturity, profitability, culture etc.) can prove to be beneficial for the performance of the company. Thus, corporate governance should be considered more as creating transparency and building a balance rather than implementing rules.

Figure 1. Overview of measures for the corporate governance – company performance link



Another limitation relates to the discrepancies between the governance processes proven to correlate with company performance and the topics highlighted in the public debate on corporate governance. For example, the culture of a company, and risk management practices, are barely studied as factors of corporate governance in relation to performance, while they are increasingly important topics in the corporate governance debate. This could be a topic for future research. Furthermore, our research mainly focuses on Anglo-Saxon companies and not on companies in countries that adopted the Rhineland model. Therefore, the results may differ between these two systems. A recommendation for further research should, therefore, be to compare the results of the studies for the two models to find out if there are any surprising deviations.

Furthermore, it was noticed that most of the research on corporate governance is based on the agency theory and how to influence and monitor management to think and act in the interest of its shareholders. The board acts as a monitoring body which inspects and monitors the executives to reduce principal-agent problems. But the studies show that a greater corporate control affects the social identification of the executives which in turn makes it difficult for them to take strategic advice from the executives of other companies. This may affect the performance of the company. Also, one of the studies considers the social psychological perspective, which shows that if a CEO has high organizational identification he will act in favour of company's growth and will avoid personal gains in absence of external control. Thus, from a stewardship theory perspective social and organizational identification of executives with the company may result in decreased agency costs and thus help to improve the performance of the company. Further research should be done concerning the stewardship and stakeholder's theory in order to better understand the ways to improve the company's performance while incorporating the corporate governance dimensions.

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