Chapter 17
King Codes on Corporate Governance and ESG Performance: Evidence from FTSE/JSE All-Share Index

Federica Doni, Antonio Corvino, and Silvio Bianchi Martini

17.1 Introduction

Over the last decade, the issue of corporate governance has become of great interest in many countries in the world for a number of reasons, including the growing importance of institutional investors in venture capital for large companies and the globalization of international financial markets (Kojima 1998; Nestor and Thompson 1999). Several issues related to "good corporate governance" have been highlighted by the failure of many well-known companies, and a number of corporate crimes have prompted the establishment of special committees involved in the drafting of reports on corporate governance of large companies in various countries, particularly in the UK (i.e. Cadbury Report 1992; Greenbury Recommendation 1995; Hampel Report 1998; Combined Code 2003; FRC 2012, 2014, 2016, 2017). In the same vein, other countries, including France, Canada, the Netherlands, and Italy, have established committees composed of leading authorities from both the industrial and financial sectors, to set codes of conduct or self-discipline (best practice) on the issues of corporate governance.

The aim of these documents is to build a structure of government that limits the risk of abuse of power by top management or controlling shareholders, which creates a disadvantage for investors. International agreement on the corporate governance

F. Doni (✉)
Department of Business and Law, University of Milano-Bicocca, Milan, Italy
e-mail: federica.doni@unimib.it

A. Corvino
Department of Economics, University of Foggia, Foggia, Italy
e-mail: antonio.corvino@unifg.it

S. Bianchi Martini
Department of Economics and Management, University of Pisa, Pisa, Italy
e-mail: silvio.bianchi@unipi.it

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principles issued by the G20 and the OECD (2015) is expected to be reached in order to construct an effective corporate governance framework, enhancing the trust and confidence of communities in companies and the financial markets. In December 2017, a public consultation was published by the Financial Reporting Council (comments required by 28 February 2018) for a new-style UK Corporate Governance Code, together with revised Guidance on Board Effectiveness and some questions on the future of the UK Stewardship Code. This document suggests the need for changes in the current UK Corporate Governance Code, especially on the issues of leadership, effectiveness and relations with shareholders, highlighting shareholder engagement as a key aspect of good corporate governance.

From this perspective, and as a result of the increasing significance of companies' commitment to Corporate Social Responsibility (CSR) (Clarkson 1995; West 2009; IFAC 2012; Diale 2012), corporate governance "is not an end in itself" (G20, OECD 2015) but has taken on a broader connotation. The main purpose is not limited to protecting the relations between investors (principal) and management (agent) but also to ensure relationships between the company and stakeholders through the preparation of codes of ethics and codes of conduct. These documents require companies to comply with legal, social, human, institutional and ethical values as an expression of behaviour that is correct and transparent, but also consistent and effective.

These factors are becoming essential, not only in industrialized countries, but also in emerging economies such as the BRICS countries (Ntim et al. 2012). In particular, South Africa stands out as a pioneer, having begun the development of its code of conduct in the 1990s (King I 1994), followed in later years by three further documents King II (2002), King III (2009) and King IV (2016). In particular, the novelty of the *King Code of Governance Principles for South Africa 2009* (IoDSA 2009) was to establish disclosure requirements for good corporate governance, setting a new listing requirement for the companies listed on the Johannesburg Stock Exchange (JSE), i.e. the drawing-up of Integrated Reporting (<IR>) as an innovative form of reporting model (Eccles and Krzus 2010; Eccles et al. 2015a; Adams 2015; De Villiers et al. 2016; KPMG 2017).

The claim for <IR> supported by some international organizations is determining a fundamental shift from traditional reporting practices to an integrated and holistic system of reporting both financial and non-financial information. This initiative could provide a new tool to improve the quantity and quality of reporting, and to tackle the problems linked to the disclosure of nonfinancial information.

Moreover, <IR> could represent an effective tool for stimulating management to adopt an integrated approach in the business context by developing a substantial change towards "integrated thinking" (SAICA 2015). <IR> is able to affect different areas of a company, such as its business model, the organizational aspects of the business activities, the selection of the material information, the connectivity of the information and the integration of financial and non-financial data, communication of multiple capitals, and so on (IIRC 2013; IODSA 2016).

It is important to note that the success of this movement is strongly influenced by the involvement of the CEO and the board in support of this radical change of

reporting system. This crucial aspect has been increasingly emphasized by the International Integrated Reporting Council (IIRC), which recently intensified relationships with the organization that is working hard at the international level in corporate governance: the International Corporate Governance Network. On December 2016, the IIRC hosted in partnership with ICGN an international conference that addressed "how to properly integrate the consideration of long term value drivers in pursuing the success of companies—ultimately contributing to a more sustainable capital market system" (http://integratedreporting.org/iirclondondec2016/). The main purpose is to achieve "integrated thinking" across strategy, performance, forward-looking prospects and, in particular, in corporate governance. At the end of February 2018, ICGN, in collaboration with IIRC, will organize a global conference in Japan (https://www.icgn.org/events/icgn-iirc-tokyo-conference-2018). This initiative aims to accelerate governance and stewardship reforms and to evaluate how to mitigate impediments to company and investor engagement efforts.

In the same perspective, the IIRC highlights this crucial statement: "Corporate reporting, and the thinking that has to accompany it, are boardroom issues. This is where strategy, performance and the development and communication of long-term value are best understood, aligned and led" (http://integratedreporting.org/resource/creating-value-value-to-the-board/). One of the most relevant topics linked to the core concept of integrated thinking and reporting is corporate governance as described by Richard Howitt, the CEO of IIRC, in his speech at IIRC-ICGN "Dialogue for longer-term value creation" (Conference, London, on the seventh of December 2016): "But we say Integrated Reporting can be accepted as a principle of twenty-first century corporate governance" (https://integratedreporting.org/news/richard-howitt-ceo-iirc-addresses-the-iirc-icgn-conference/). This perspective is shared by ICGN, which is setting and promoting standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies. The principles of corporate governance (ICGN 2013) include a focus on disclosure and integrated reporting, underlining the importance of the comprehensive disclosure of information for investors and other stakeholders relating to financial statements, strategic and operational performance, corporate governance and material environmental and social factors. Moreover, these principles emphasize a robust audit practice, which is critical for necessary quality standards.

In particular, boards should evidence a commitment to communicating the opportunities and risks linked to Environmental Social and Governance, ESG-related issues that are material to the company's strategy and performance. The emphasis on ESG issues reveals a clear effort on the part of the IIRC to bring about a radical change towards a more sustainable board, and a growing attention to the involvement of the board, particularly the CEO and CFO (IIRC 2014; IIRC and IFAC 2017; IFA 2017), in the process of integrated thinking/reporting. The relationship between <IR> and corporate governance arises from the need to carry out a process of integrated thinking/reporting as corporate reporting is "an essential and inseparable part of corporate governance". The outcome of a corporate governance process is corporate reporting that shows purposes, values and business activities reflected on the behaviours of the board and management team (IIRC 2016).

Recently, this new perspective has been adopted by South Africa, which is the first country in the world to consider corporate reporting, that is, <IR>, "as a mainstream component of corporate governance". The achievement of an integrated and inclusive corporate governance system can provide benefits for both businesses and investors, as <IR> is expected to connect corporate governance and investment stewardship.

Given the importance of the link between corporate governance and <IR>, it is worth assessing how this trend is developing and evolving by identifying the main drivers of this important challenge. This topic attracts attention on South Africa where this relationship seems to achieve a high significance.

To assess this topic, this chapter seeks to analyse in-depth the consequences of the adoption of King III (IODSA 2009) which came into effect in 2010, and the main changes from the recent release of the Corporate Governance Code *Draft King IV™ on Corporate Governance for South Africa 2016* (http://www.iodsa.co.za). The main objective of King III and, afterwards, King IV, is to promote good corporate governance as a driver for ethical and effective leadership at board level. This aim can be achieved through an ethical culture, sustainable performance, adequate control by the governing body and protecting trust in the organization, its reputation and legitimacy (IODSA 2013). Following this initial analysis, we aim to assess the potential correlation between the environmental/social performance and corporate governance practices after the adoption of the King III, which represented a radical shift towards the enhancement of sustainability-related issues in business activities and the corporate governance system.

With a few exceptions, the topic of the interrelationships between <IR>, corporate governance and ESG performance in South African listed companies is still underexplored (Hindley and Buys 2012; Carels et al. 2013; Bianchi Martini et al. 2017; Adams 2017; McNally et al. 2017) and it needs to be investigated with additional empirical studies.

In doing this, the present chapter proceeds as follows: the second section explains the process of developing corporate governance codes in South Africa, and the third section summarizes a number of previous studies on the relationships between corporate governance, reporting and sustainability issues in support of the formulation of our research hypotheses. The fourth section details the research design, while the fifth describes our main findings. Finally, the sixth section portrays the results and offers some concluding remarks.

17.2 Background: The Development of Corporate Governance Code from King III to King IV

Since the end of the twentieth century, there has been a growing interest in corporate governance, the set of principles and rules governing the coordination and control of powers and roles in the business context, even if entrepreneurs and managers have always been interested in the improvement of corporate governance practices.

In particular, the emerging countries are showing a strong commitment to setting or revising corporate governance codes, forcing companies to adopt <IR>. For example, the Securities and Exchange Board of India (SEBI) released the report of the committee on corporate governance (October, 2017) on revising corporate governance principles in Indian companies by suggesting changes in disclosure, transparency, board composition and performance. Moreover, Malaysian companies are being called on to adopt Integrated Reporting as part of the Malaysian Corporate Governance Code, launched in April 2017 by the Securities Commission Malaysia. In the same way, the Institute of Directors of Zambia supports sound corporate governance principles and ethics, as they are key in ensuring proper management, control and accountability for the affairs of private and public enterprises in Zambia. The Institute of Directors of Zambia has affirmed (February, 2015) that sustainable reporting and the development of the concept of integrated reporting are critical, not only to ensure increased levels of transparency and accountability but also to change corporate behaviour.

Among emerging countries, South Africa moved to integrated reporting and integrated thinking in 2010. However, the development of the code of corporate governance in South Africa dates back to 1994, when the King Committee on Corporate Governance published King I, named after the Committee's chairman [Professor] Mervyn E. King. King II was passed in 2002 and in September 2009, the third edition of the King Code of Governance Principles for South Africa 2009, effective from 1 March 2010, appeared. Since March 2014, the Institute of Directors South Africa (IoDSA) has been a member of the Integrated Reporting Committee Council.

The principles of "good governance" signalled by King III—and most recently by King IV (November 2016)—can be connected with an innovative model of corporate reporting, known as Integrated Reporting (<IR>), which became a mandatory listing requirement in South Africa in 2010 (Hindley and Buys 2012; Carels et al. 2013; Rensburg and Botha 2014; Setia et al. 2015; Doni et al. 2016; Raemaekers et al. 2016; Bianchi Martini et al. 2017; Doni and Fortuna 2018). At a time of deep worldwide financial crisis, South Africa sent a signal of renewed trust in the code of self-discipline. This code of conduct is basically voluntary and represents one of the most advanced forms of self-discipline. It affected corporate law in a very specific way, if we consider that the two earlier versions gave way to passing Companies Act No. 71 of 2008. As a pioneer country, South Africa therefore tried early on to promote principles of corporate governance strongly inspired by the Anglo-Saxon model. The basic principle of King III lies in the "comply or explain" approach which originated in the Combined Code of the United Kingdom, which in turn has its roots in the 1992 Cadbury Report. This principle represents the essence of the code's flexibility: the code is not made up of a strict set of rules, but of principles and provisions, quite unlike the governance on a statutory basis model, in which the opposite "comply" or "comply or else" rule is followed. This kind of arrangement is adopted in the US, where governance is partly regulated by the Sarbanes-Oxley Act and non-compliance is subject to sanctions. The "comply or explain" approach has been implemented in South Africa with even greater flexibility, given that the term

"apply" replaced the term "comply" in King III, thereby emphasizing the way that principles and recommendations can be applied, rather than focusing on compliance assessment (King Code of Governance 2009: 7). The only obligation placed on directors by law is "to act in the best interests of the company". If the reasons behind the practice adopted are made explicit, and the specifics thereof are duly illustrated, compliance with the principles of King III is assured. However, we shall point out that all the principles included in the code are equally important and contribute collectively to establishing a holistic approach to governance: any "substantial application" of the code does not therefore imply achieving compliance.

The King Committee published the King IV Report on Corporate Governance for South Africa 2016 (IODSA 2016) on 1 November 2016. King IV is effective in respect of financial years commencing on or after 1 April 2017. King IV replaces King III in its entirety. King IV closes the circle of integrated reporting which calls on organizations to prepare an integrated report each year to reflect the understanding that strategy, risk, performance and sustainability are closely connected. King IV is principle- and outcomes-based rather than rules-based and it confirms the strong link with <IR>, (IIRC welcomes the release of King IV as South Africa sets a new global standard for corporate governance) supported by the policies adopted by international corporate governance practices, especially by the International Corporate Governance Network (ICGN). King IV provides a definition of corporate governance as the exercise of ethical and effective leadership by the governing body towards the achievement of the following governance outcomes: 1) ethical culture; 2) good performance; 3) effective control; 4) legitimacy. These outcomes reveal the firm commitment of the IoDSA to a radical shift from financial capitalism to inclusive capitalism, promoting a more sustainable value-creation process.

It is essential to note that the King approach is completely consistent with the listing requirements adopted by the Johannesburg Stock Exchange (JSE), which in 2004 launched the SRI index (JSE 2004), as a system for identifying those companies that incorporate the principles of the triple bottom line and good corporate governance into their business operations. Recently, this approach has been largely adopted by several stock exchanges, especially in the context of the Sustainable Stock Exchanges (SSE) initiative, carried out by the UN Conference on Trade and Development (UNCTAD), the UN Global Compact, the UN Environment Programme Finance Initiative (UNEP FI), and the Principles for Responsible Investment (PRI) network. SSE is a peer-to-peer learning platform for exploring how exchanges, in collaboration with investors, regulators and companies, can enhance corporate transparency—and ultimately performance—on ESG issues and encourage sustainable investment (http://www.sseinitiative.org/).

That said, the requirement for listed companies to adopt <IR> can represent an important turning point, not only in terms of a new corporate reporting model, but also as a "driver" for potential improvements in corporate governance practices. Moreover, <IR> can provide a solution to the lack of adequate information supplied by the Annual Report. The traditional financial reporting model is not able to capture the economic consequences of business innovations (Healy and Palepu 2001) and is

becoming more complex and less relevant to shareholders (FRC 2011). A growing number of companies provide non-financial information, but very few organizations are able to integrate financial and non-financial information in an effective way (Investment Responsible Research Center Institute 2013). <IR> can lead to "a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term" (IIRC 2013).

17.3 Literature Review and Research Hypotheses Development

Several studies analyzed different corporate governance issues and practices, nevertheless an interesting field of study focuses on the relationship between corporate governance and the disclosure of information. In this perspective, to enhance corporate governance mechanisms, it is important that the communication of information is as transparent as possible in order to reduce the possible information asymmetries between ownership and management, in accordance with the agency theory (Haniffa and Hudaib 2006; Baek et al. 2009; Garcia-Lara et al. 2009; Beekes et al. 2016; Nagata and Nguyen 2017). In particular, an empirical analysis demonstrated the positive impact of corporate governance factors on transparency and disclosure of forward-looking information (Agyei-Mensah 2017).

Although a number of studies have focused on the impact of corporate governance on the disclosure of intangibles and Intellectual Capital (Cerbioni and Parbonetti 2007; Hidalgo et al. 2011), recently the main interest has tended towards a specific kind of non-financial information: sustainability and Corporate Social Responsibility (CSR) disclosure. Some scholars have demonstrated the positive impact of a high level of corporate governance on legitimacy management as well as the quality of CSR disclosure (Liu and Zhang 2017). More specifically, the empirical evidence highlights a positive association between the CSR approach (Amran et al. 2014) or the stakeholder orientation of the board and sustainability reporting i.e. environmental and social disclosure or performance (Mallin et al. 2013), although some firm-specific factors, such as firm size and industry, exert a strong influence on this relationship (Chan et al. 2014; Kaymak and Bektas 2017; Helfaya and Moussa 2017) and on its effect on financial markets (Rodriguez-Fernandez 2016; Liu and Zhang 2017).

The ESG factors are becoming increasingly significant in emerging economies (Ntim et al. 2012). The novelty of the King Code of Governance Principles for South Africa 2009 and the mandatory drafting of <IR> for JSE-listed companies has been analyzed by some studies on the content of integrated reports and its managerial implications (Hindley and Buys 2012; Carels et al. 2013; Rensburg and Botha 2014; Setia et al. 2015; Raemaekers et al. 2016; Bianchi Martini et al. 2017; Doni and Fortuna 2018). Although the adoption of <IR> is compulsory, it

should be highlighted that the process of integrated reporting/thinking requires a holistic approach to the disclosure process. The effective integration of financial and non-financial information should be the end result of an active commitment to <IR> on the part of the board and senior managers, promoting a radical shift towards a more inclusive organizational structure (Feng et al. 2017) and greater cultural control (Dumay and Dai 2017). A comprehensive adoption of integrated thinking across all organizational functions seems to be essential (Dumay and Dai 2017) as well as useful for attracting longer-term investors by improving management ability to implement a strategy of stakeholder engagement and investment (Knauer and Serafeim 2014).

From a practical point of view, the strong link between integrated thinking/reporting and corporate governance has been established by the collaboration between the IIRC and ICGN (London, December 2016, http://integratedreporting.org/iirclondondec2016/). In this view, the ICGN revised Global Governance Principles include the recommendation that boards should produce integrated reports. In addition, this aspect has been assessed in the academic context, as recent theoretical and empirical studies have demonstrated growing evidence of the benefits of adopting <IR> to corporate governance systems and organizational processes (Frias-Aceituno et al. 2013; Churet and Eccles 2014; Dumay and Xi Dai 2014; Eccles et al. 2015b; Nazari et al. 2015; Haji and Hossain 2016; Eccles and Youmans 2016; Dumay et al. 2016). In particular, the perception of a sample from South African institutional investment industry on the first sets of integrated reports being prepared by JSE-listed companies shows a shift of interest towards sustainability issues and <IR>, but that there are also some difficulties and obstacles in delivering high-quality reporting (Atkins and Maroun 2015).

Given these practical difficulties, it is possible to highlight that the successful implementation of <IR> and integrated thinking is strongly affected by the involvement of the board in sustainable practices and in the development of sustainability issues in corporate reporting. To do this, it is essential to enhance sustainability performance, not in isolation from the main organizational performance (Cheng et al. 2014) or as mere operation of "impression management" (Hooghiemstra 2000; Merkl-Davies and Brennan 2007; Melloni 2015) or an acitviity of "greenwashing" (Lyon and Maxwell 2011), but as an integral part of the value-driving initiatives and management processes of organizations (Eccles and Krzus 2010; Eccles et al. 2015b; Frias-Aceituno et al. 2014).

Given these premises, this research is focused on an analysis of the integrated reports drawn up by a sample of JSE-listed companies, to evaluate whether the adoption of King III and <IR> does in fact enhance ESG disclosure and improve corporate governance practices.

Our analysis can be divided into two steps. First, we consider the impact of King III on ESG performance, and then we investigate the influence of King III on certain features and functions of corporate governance, identifying specific issues.

Our first group of research hypotheses is supported by a large body of literature from which it is possible to argue the crucial role played by the Board of Directors in

the good practice of corporate social responsibility by adopting policies of stakeholder engagement and holistic disclosure transparency processes (Frias-Aceituno et al. 2013). Moreover, King III established principles encouraging boards to appreciate the link between strategy, risk, performance and sustainability, and to emphasize the influence of the perception of stakeholders on a firm's reputation (Adams 2017).

Given these premises, we first formulate three hypotheses, on governance, on environmental performance and on social performance. We expect that the principles of King III encourage board directors and senior managers to incorporate ESG factors into reporting processes and corporate strategy development. The hypotheses are formulated as follows:

1a) the adoption of King III exerts an influence on governance performance;
1b) the adoption of King III exerts an influence on environmental performance;
1c) the adoption of King III exerts an influence on social performance.

As a second step, we aim to investigate the impact of King III on good and effective corporate governance practices by examining board functions, responsibilities, compensation and vision. For example, we expect the principles of King II to positively influence board commitment as evidenced in the establishment of essential committees with clear allocation of tasks and responsibilities. In addition, we evaluate the influence of King III on board structure through a well-balanced membership, evidenced by the adequate presence of independent and diverse directors, ensuring a completely free exchange of ideas and an independent decision-making process. We also consider good corporate governance practices in relation to competitive and proportionate management compensation. This reflects a company's capacity to attract and retain executives and board members with the necessary skills by linking their compensation to individual or company-wide financial or extra-financial targets. Finally, we expect to find a positive effect from the adoption of King III on the development of corporate strategies, emphasizing the capacity of the board to convincingly demonstrate the integrated approach in all dimensions—financial, social and environmental—in its day-to-day decision-making processes (Adams 2017).

Therefore, we formulate the following hypotheses:

2a) the adoption of King III exerts an influence on the ratio Board of Directors/Board Functions;
2b) the adoption of King III exerts an influence on the ratio Board of Directors/Board Structure;
2c) the adoption of King III exerts an influence on the ratio Board of Directors/Compensation;
2d) the adoption of King III exerts an influence on the ratio Integration/Vision and Strategy.

Because of potential correlations between corporate governance performance and social/environmental—i.e. sustainability factors—confirmed by large literature

(i.e. Cowen et al. 1987; Buckholtz et al. 2008; Michelon and Parbonetti 2010; Mallin and Michelon 2011; Mallin et al. 2013), we aim to investigate the influence of corporate governance performance on the two pillars of CSR, that is, on environmental and social performance.

Therefore, we formulate the following hypotheses:

3a) corporate governance performance is positively associated with environmental performance;
3b) corporate governance performance is positively associated with social performance.

Finally, we aim to investigate the potential correlation between corporate governance features and practices and the two pillars of the sustainability concept in order to evaluate and compare the board attitude towards environmental or social issues.

We therefore formulate the following hypotheses:

4a) the ratio Board of Directors/Board Functions is positively associated with environmental performance;
4b) the ratio Board of Directors/Board Functions is positively associated with social performance;
5a) the ratio Board of Directors/Board Structure is positively associated with environmental performance;
5b) the ratio Board of Directors/Board Structure is positively associated with social performance;
6a) the ratio Board of Directors/Compensation is positively associated with environmental performance;
6b) the ratio Board of Directors/Compensation is positively associated with social performance;
7a) the ratio Integration/Vision and Strategy is positively associated with environmental performance;
7b) the ratio Integration/Vision and Strategy is positively associated with social performance.

17.4 Data Collection and Sample Analysis

The dataset is made up of South African companies listed on the FTSE/JSE All-Share Index. This index was selected because it accounts for a large percentage of the market capital value (99%: FTSE Russell, 29 September 2017) and highlights the performance of the main industry segments of the South African market. In terms of net market capitalization, among the top ten constituents (equal to 54.19% of the total), the industries positioned from the first to the third rank are the media (17.47%), personal goods (8.81%) and mining (6.98%). Overall, these three

Table 17.1 Crafting process of the sample

Steps	Description	Observations
1	Total South African listed companies included in the FTSE/JSE All-Share Index	163
2	Data availability with reference to ESG scopes	130
3	Data collected with reference to ESG scopes	65
Representativeness of the sample related to step 1		39.88%
Representativeness of the sample related to step 2		50.00%

Source: Authors' elaboration

segments yield 163 companies. The most representative industries, with a number of constituents above 15, are basic resources (e.g. mining), industrial goods and services, retail, real estate and financial services.

Table 17.1 shows the crafting process used in the empirical analysis. We adopted the ASSET4 database managed by Thomson Reuters. Of 163 listed companies, ESG data was available just for 130. Given that our empirical study is still at an early stage, we collected data just for 65 companies. The representativeness of the sample is however passing as the amount of observations is 39.88% of the statistical population. In this regard, it should be noted that the data collection activities require some steps, in order to build a longitudinal dataset that covers the 2012–2016 period. The latter period is mainly conditioned by the full availability of ESG data and allows us to investigate the effects of the introduction of King III (in 2009) up to 2016, the year in which King IV was released.

In the research design, drawing upon the literature review and the research hypotheses mentioned in the previous sections, the key dependent variables are the environmental and social scores. The independent variables concerning the corporate governance model are its score and the following ratios: Board of Directors/Board Functions, Board of Directors/Board Structure, Board of Directors/Compensation Policy and Integration/Vision and Strategy.

Table 17.2 depicts an accurate description for each of the above variables, in order to show the salient points of our empirical study.

From the methodological standpoint, our findings are derived from the calculation of bivariate analyses. Specifically, two non-parametric tests—the Wilcoxson and the Sign—as well as the Spearman correlations were computed. The choice of these non-parametric tests is importantly influenced by the sample size and by the need to analyse a paired sample, as a consequence of the aim to explore the first seven research hypotheses. Furthermore, in this study, the Sign test can be considered a control test, given that it is widely considered more powerful than the Wilcoxcon test (Bryman and Cramer 2001) and consequently can corroborate the empirical evidence.

Finally, the SPSS (Statistical Package for Social Science, version 20.0) software was used for carrying out the econometric estimations.

Table 17.2 Description of Variables

Variables	Code	Description
Dependent variables		
Environmental Score	*Environmental_Score*	The environmental pillar measures a company's impact on living and non-living natural systems, including the air, land and water, as well as complete ecosystems. It reflects how well a company uses best management practices to avoid environmental risks and capitalize on environmental opportunities in order to generate long-term shareholder value
Social Score	*Social_Score*	The social pillar measures a company's capacity to generate trust and loyalty with its workforce, customers and society, through its use of best management practices. It is a reflection of the company's reputation and the health of its license to operate, which are key factors in determining its ability to generate long-term shareholder value
Independent variables		
Corporate Governance Score	*CG_Score*	The corporate governance pillar measures a company's systems and processes, which ensure that its board members and executives act in the best interests of its long term shareholders. It reflects a company's capacity, through its use of best management practices, to direct and control its rights and responsibilities through the creation of incentives, as well as checks and balances in order to generate long-term shareholder value
Board of Directors/ Board Functions	*BoD_BFunctions*	The board of directors/board functions category measures a company's management commitment and effectiveness towards following best practice corporate governance principles related to board activities and functions. It reflects a company's capacity to have an effective board by setting up the essential board committees with allocated tasks and responsibilities
Board of Directors/ Board Structure	*BoD_BStructure*	The board of directors/board structure category measures a company's management commitment and effectiveness towards following best practice corporate governance principles related to a well-balanced membership of the board. It reflects a company's capacity to ensure a critical exchange of ideas and an independent decision-making process through an experienced, diverse and independent board

(continued)

Table 17.2 (continued)

Variables	Code	Description
Board of Directors/Compensation Policy	*BoD_Compensation*	The board of directors/compensation policy category measures a company's management commitment and effectiveness towards following best practice corporate governance principles related to competitive and proportionate management compensation. It reflects a company's capacity to attract and retain executives and board members with the necessary skills by linking their compensation to individual or company-wide financial or extra-financial targets
Integration/ Vision and Strategy	*Integration_Vision_Strategy*	The integration/vision and strategy category measures a company's management commitment and effectiveness towards the creation of an overarching vision and strategy integrating financial and extra-financial aspects. It reflects a company's capacity to convincingly show and communicate that it integrates the economic (financial), social and environmental dimensions into its day-to-day decision-making processes

Source: ASSET4 (Thomson Reuters 2017)

17.5 Results

Figure 17.1 sets out the descriptive statistics for the environmental score from 2012 to 2016. On average, an interesting jump ahead between 2014 and 2015 emerges.

By contrast, the social score displays a slight decrease in the mean between 2015 and 2016. In addition, the maximum is almost constant (Fig. 17.2).

Figure 17.3 shows that the mean as well as the minimum record a positive peak in 2015, the first year of the release process of King IV.

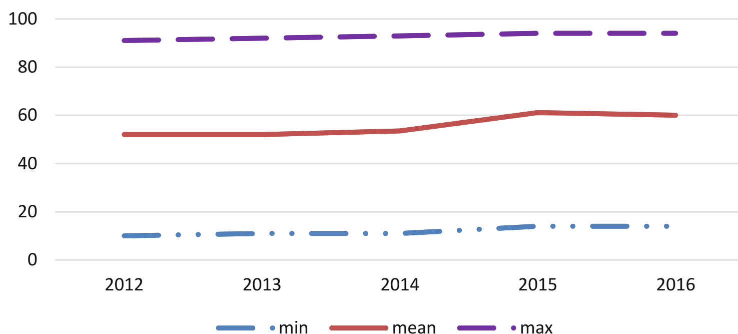

Fig. 17.1 Environmental score (2012–2016)

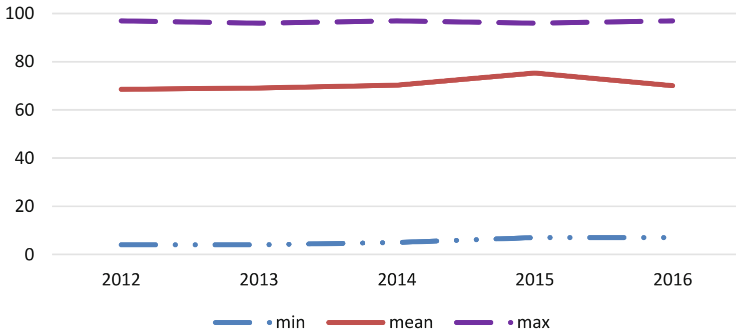

Fig. 17.2 Social score (2012–2016)

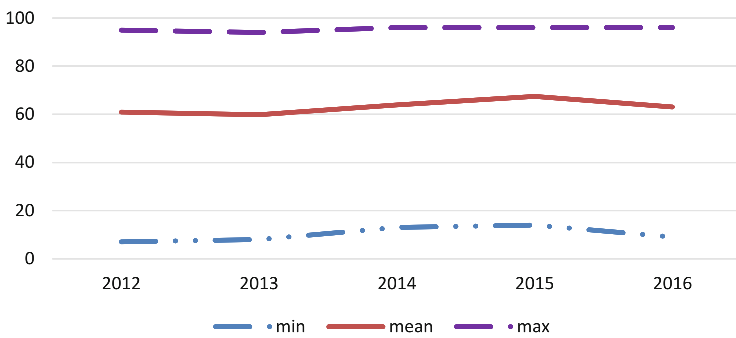

Fig. 17.3 Corporate governance score (2012–2016)

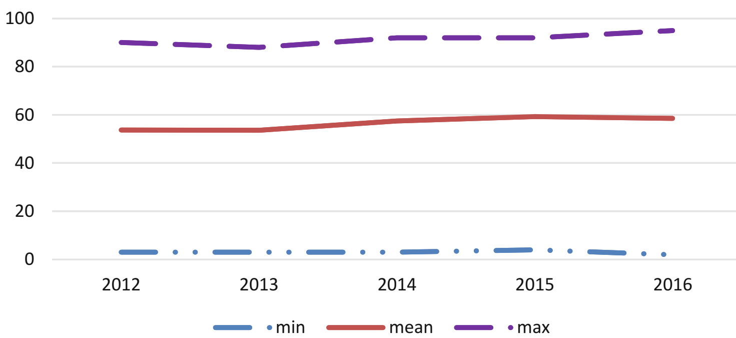

Fig. 17.4 Board of directors/board functions (2012–2016)

The ratio Board of Directors/Board Functions features for a growing trend of the mean between 2012 and 2016. The positive peak takes place in year 2013–2014 (Fig. 17.4).

Figure 17.5 shows that the positive peak of the mean occurs in 2015. Furthermore, in terms of minimum, there is a light performance from 2012 to 2015.

The ratio Board of Directors/Compensation Policy records a negative performance of the mean in 2016. Moreover, the minimum presents an undulating trend where the lowest points are in both 2014 and 2016. By contrast, the positive peak takes place in 2015 (Fig. 17.6).

Figure 17.7 highlights that the trends of minimum and maximum values are similar and growing. As explained earlier, the positive peak of the mean happens in 2015.

The findings listed in Table 17.3 support the first two out of seven research hypotheses. In other words, the Wilcoxon and Sign tests (the latter as control method for testing the reliability of findings) yield evidence that, from the comparison between 2012 and 2016 (i.e. the first year where ESG data is available after the introduction of King III and the year corresponding to the launch of King IV), there

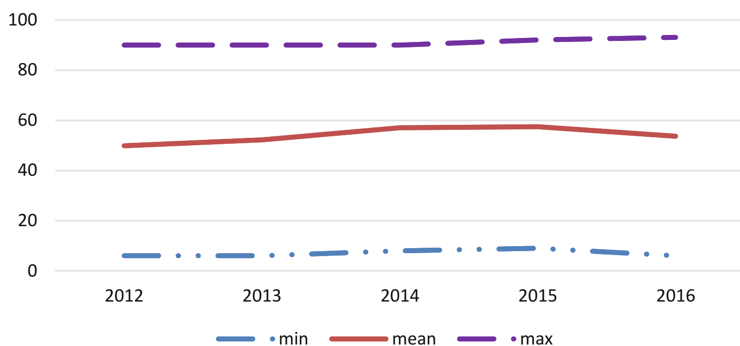

Fig. 17.5 Board of directors/board structure (2012–2016)

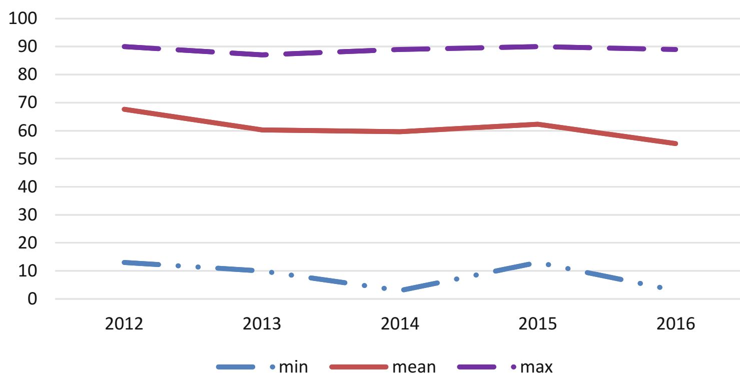

Fig. 17.6 Board of directors/compensation policy (2012–2016)

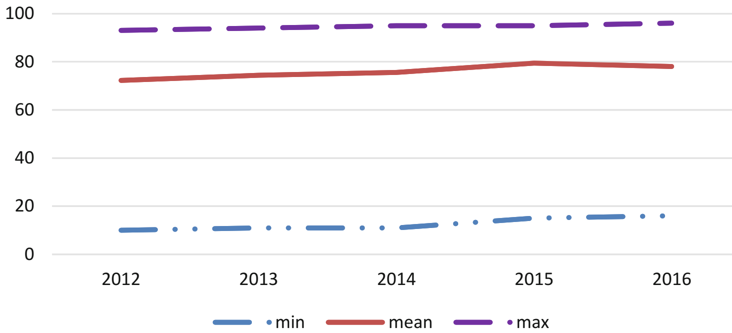

Fig. 17.7 Integration/vision and strategy (2012–2016)

is a statistically significant difference for each single variable included in our empirical analysis. Therefore, King III exerts an influence on both environmental and social performance and on corporate governance practices.

Table 17.4 depicts the results stemming from the calculation of Spearman's correlations where the dependent variable is the environmental score. In particular, hypotheses 3a, 4a and 7a are confirmed, while hypotheses 5a and 6a are rejected, as the *p*-value is not statistically significant. Therefore, the increase in the corporate governance score recorded in 2015 tends to boost the environmental score of the following year. Similarly, this circumstance occurs with reference to the correlations between the dependent variable and the following ratios: Board of Directors/ Board Functions and Integration/Vision and Strategy. Furthermore, such correlations feature for a significant *p*-value (broadly below the critical threshold of 0.001).

As before, Table 17.5 sets out the findings as regards the adoption of Spearman correlations in which the dependent variable is the social score. Clear evidence emerges for hypotheses 3b, 4b and 7b. However, with reference to hypothesis 6b), there is only slight confirmation. Accordingly, we can say that corporate governance performance in 2015 is positively associated with social performance in 2016 (both measured by a specific score computed by ASSET4). The same results can be observed for the correlations between social performance and each of the following ratios: Board of Directors/Board Functions and Integration/Vision and Strategy. As above, the *p*-value of the latter correlation is below the critical boundary of 0.001. In contrast to Table 17.4, there is a positive correlation between the dependent variable and the ratio Board of Directors/Compensation Policy, even if it is worthwhile pointing out that the *p*-value is only just below the threshold of 0.10 (i.e. 0.092).

Finally, it should be noted that the ratio Board of Directors/Board Structure (hypothesis 5b) is never statistically significant, either for environmental or social performance.

Table 17.3 Non parametric tests: Wilcoxson and sign, comparison 2012–2016

				Wilcoxson Test		Sign Test	
Variables	HPs	Expected Results	Findings	Z	p-value	Z	p-value
CG_Score	1a	Presence of a difference	Presence of a difference	−2.511	0.012*	−3.022	0.003**
Environmental_Score	1b	Presence of a difference	Presence of a difference	−4.463	0.000***	−3.946	0.000***
Social_Score	1c	Presence of a difference	Presence of a difference	−2.621	0.009**	−3.081	0.002**
BoD_BFunctions	2*a*	Presence of a difference	Presence of a difference	−2.618	0.009**	−2.313	0.021*
BoD_BStructure	2b	Presence of a difference	Presence of a difference	−2.127	0.033*	−2.586	0.010*
BoD_Compensation	2c	Presence of a difference	Presence of a difference	−3.042	0.002**	−1.923	0.054^
Integration_Vision_Strategy	2d	Presence of a difference	Presence of a difference	−4.858	0.000***	−5.307	0.000***

Significance level: ^$p < 0.1$; *$p < 0.05$; **$p < 0.01$; ***$p < 0.001$

Table 17.4 Spearman' correlations, dependent variable: environmental score

Variables	HPs	Expected Sign	Findings	Rho	p-value	N
CG_Score 2015—Environmental_Score_2016	3a	+	Confirmed	0.399	0.003**	55
BoD_BFunctions 2015—Environmental_Score_2016	4a	+	Confirmed	0.512	0.000***	55
BoD_Structure 2015—Environmental_Score_2016	5a	+	Rejected	−0.058	0.674	55
BoD_Compensation 2015—Environmental_Score_2016	6a	+	Rejected	0.202	0.139	55
Integration_Vision_Strategy—Environmental_Score_2016	7a	+	Confirmed	0.700	0.000***	55

Significance level: ^$p < 0.1$; *$p < 0.05$; **$p < 0.01$; ***$p < 0.001$

Table 17.5 Spearman correlations, dependent variable: social score

Variables	HPs	Expected Sign	Findings	Rho	p-value	N
CG_Score 2015—Social_Score_2016	3b	+	Confirmed	0.417	0.002**	55
BoD_BFunctions 2015—Social_Score_2016	4b	+	Confirmed	0.417	0.002**	55
BoD_Structure 2015—Social_Score_2016	5b	+	Rejected	0.015	0.915	55
BoD_Compensation 2015—Social_Score_2016	6b	+	Confirmed	0.230	0.092^	55
Integration_Vision_Strategy—Social_Score_2016	7b	+	Confirmed	0.460	0.000***	55

Significance level: ^$p < 0.1$; *$p < 0.05$; **$p < 0.01$; ***$p < 0.001$

17.6 Discussion and Conclusion

Our study highlights the association between corporate governance mechanisms, ESG factors and <IR> following the adoption of King III and King IV in South Africa. The research was focused on a period that started in 2012 and ended in 2016. While King III was introduced in 2009, the ASSET4 database holds full ESG data only from 2012 onwards. 2016 is the year in which King IV was launched. The comparison between the first and the last years of the timeframe allowed us to explore ESG performance and a number of other corporate governance practices implemented by South African companies listed on the FTSE/JSE All-Share Index and obliged, therefore, to adopt the King Code on Corporate Governance.

Indeed, the findings of the descriptive statistics highlight positive peaks in 2015 with reference to overall corporate governance performance, the appropriate balance of membership on the board (i.e. the ratio Board of Directors/Board Structure), competitive and appropriate management compensation (i.e. the ratio Board od

Directors/Compensation Policy) and effectiveness in formulating a strategic vision in which financial and non-financial elements are closely integrated (i.e. the ratio Integration/Vision and Strategy).

A comparison of the first and last years in which the adoption of King III was compulsory, reveals the presence of a statistical difference with respect to ESG performance and various corporate governance practices pertinent to the balance of membership on the board, board activities and functions, competitive and appropriate management compensation and the integration of financial and non-financial elements in the strategic vision. In other words, our findings corroborate the mainstream research that finds that the mandatory approach can foster a constructive updating or re-engineering of the corporate governance model. In this perspective, our findings are not consistent with McNally et al. (2017), who demonstrate that <IR> is not considered a natural part of internal business processes and reporting protocols, but in fact limits the development of management control systems and accounting infrastructures.

From this point of view, such results furthermore reveal a growing commitment in our sample to many of the specific objectives of King IV, i.e. "reinforce corporate governance as a holistic and interrelated set of arrangements to be understood and implemented in an integrated manner" and "present corporate governance as concerned not only structure and process, but also with an ethical consciousness and conduct" (IODSA 2016, King IV: 22).

The empirical evidence also shows intriguing associations between the implementation of certain governance principles issued in the code and ESG performance. Indeed, the "evolution" from King III to King IV, measured by the comparison between the last year of King III and the first year of King IV adoption, indicates that certain corporate governance practices (such as board functions and structure, compensation policy and the integration process of strategy/vision) can represent a crucial pillar for environmental and social performance (Peters and Romi 2014). In other words, it is insightful to note that there is a substantial alignment of results ascribable to the foregoing dimensions of firm performance, i.e. environmental and social performance. Indeed, the presence of an active board that allocates tasks and responsibilities to different committees and the intention to create an all-encompassing vision with the aim to integrate financial and non-financial perspectives—an integrated thinking approach—are discernible in both environmental and social performance (Oliver et al. 2016; Adams 2017; Dumay and Dai 2017).

In contrast to some prior studies (Bondy et al. 2008), our empirical evidence can provide useful insights about the role of corporate governance codes that should not be considered as tools for governing traditional business issues such as ensuring compliance with laws and regulations, but for the social and environmental commitment to a better integration between the financial and non-financial dimensions.

In terms of managerial implications, the implementation of a corporate governance model intended to generate long-term shareholder value, board activities as well as the ability to integrate the economic, social and environmental dimensions into the corporate strategic design can be considered key "requirements" in a value-creation process that is focused on the achievement of environmental and social goals.

While this study provides useful pointers as regards the improvement of corporate governance mechanisms and practices in an environmental and sustainability perspective, it is centered on a dataset made up of listed companies in a single emerging country which obliged companies to draw up a specific model of reporting, i.e. <IR>. Moreover, the sample size is limited by the partial availability of ESG data, despite the adoption of a dependable secondary database, ASSET4.

Finally, further and stimulating research routes could include the exploration of the comparison between small and medium-sized entities (SMEs), with listed companies and, therefore, the question of the possible relevance of firm size.

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