AN EMPIRICAL STUDY OF STRATEGIC CORPORATE GOVERNANCE AND SUSTAINABLE GROWTH

Fumihiko Isada[1], Yuriko Isada[2]

[1]Kansai University, Takatsuki, Osaka, Japan

[2]Kwansei University, Sanda, Hyogo, Japan

Abstract

Although corporate governance is necessary for a company, it tends to be considered as a negative factor in terms of profit. In this research, corporate governance-related activities were redefined and classified in a broad sense, and the pathways from each different type of corporate governance leading to the revenue were explored. As a research methodology, a company questionnaire was conducted. In conclusion, the relationship between each corporate-governance activity, strategic activity, strategic key performance indicator and long-term revenue became clear.

Key words: *corporate governance, compliance, corporate-citizen, corporate culture, creating shared value, strategic key performance indicator*

1. INTRODUCTION

The objective of this research is to clarify empirically the relationship between corporate-governance activity and profitability in a business firm. The start of the problem of corporate governance goes back to the separation of management and ownership, which Berle & Means (1932) raised originally. The major questions at that time were the checks on the behaviour of the professional manager by a stockholder. Then, as the scope of an enterprise's activity spread, so too did the interpretation of who should be involved in these checks, from shareholder to stakeholder. According to Friedman (1970), various stakeholders both inside and outside a company check business behaviour, and have an effect on it. Whenever scandals involving a company, such as an environmental-pollution issue or violation of laws and ordinances etc., arise today, a company is impeached and is faced with a crisis of continuation. And each time, the problems of corporate governance are raised, such as the intensification of a compliance system and the expansion of various social surveillance systems. The intensification of such corporate governance is an internationally common trend today.

On the other hand, an increase in revenue or profit growth may not necessarily be directly connected to a company tackling corporate governance, such as compliance. Therefore, although a corporate-governance activity is obligatory for a company, it tends to be thought to fetter growth. From a short-term perspective, putting compliance etc. into practice may not be immediately connected with an increase in revenue. However, compliance is a prerequisite of a company's continuation. If a situation arises where a company loses the trust of society once, the ability of that company to continue its business can end in an instant.

Furthermore, today's corporate governance has various elements and a corporate governance is not only about adhering strictly to compliance. If a corporate governance is building and developing a good relationship with various internal and external stakeholders of a company, then the corporate governance can also have a good influence on the revenue of the company from a long-term perspective. For example, outside of a company, the inhabitants of the local area are important stakeholders of the company, and may be consumers of the company's products. Building a good relationship with the local inhabitants may lead to consumer expansion in the future. Furthermore, solutions to a local environmental problem or various social problems may become a business opportunity in the future. In addition, for example, in internal affairs, employees are also important stakeholders. Workplace environment and the design of institutional arrangements that take the employees into consideration, fostering a culture that promotes employees' growth, etc. may lead to an improvement in revenue as a result of innovation by an employee.

Therefore, this research does not only deal with the restrained role of a corporate governance, but also corporate governance in more broad terms, and considers the relationship with the sustainable growth and future increase in revenue of a company. If this relationship is empirically verifiable, it can support a company that promotes a strategic corporate-governance activity. It is thought that the relationship between corporate governance and profitability is not direct, and that corporate-governance activity is ultimately indirectly connected with profitability through the influence of some other activities. In addition, it is thought that various activities are included in corporate governance, and that the path connecting business growth and increase in revenue is not uniform in each activity. Therefore, in this research, the scope of activities involved in corporate governance is appropriately typified, and each path in which an activity results in profitability is clarified. The questionnaire to the company was implemented as survey methodology.

2. PREVIOUS RESEARCH

2.1. A definition of corporate governance

According to the Cadbury Report (1992), corporate governance is a system that controls the direction of a company. Corporate governance is the basis of a business organization which orients a management, and is concerned with all work processes. According to Brickley, Smith and Zimmerman (2005), many company scandals, including the case of Enron Corp., do not stem from one specific side of governance, but are concerned with the whole system design of an organization.

The Organisation for Economic Co-operation and Development (2004) asserts the framework of corporate governance in principle. Corporate governance promotes a transparent and efficient market and is consistent with the principle of a law. Corporate governance should recognize the stakeholder's rights established by legislation or mutual agreement, promote the positive cooperative relationship of a company and a stakeholder, create abundance and employment, and improve financial soundness and sustainability. In addition, corporate governance is formed as a result of an environment, a history and a tradition, and the content and the structure of a framework of a corporate governance need to be adjusted according to the business environment through the accumulation of new experience. According to Freeman (1984), the stakeholder of a certain organization is the group or individual who can affect an achievement of the mission and objective of that organization, or is affected by them. According to Blair (1995), corporate governance of the modern company should be adopted for the profit of all the stakeholders of a company, not just for the stockholder.

2.2. Corporate governance and performance

Gompers, Ishii and Metrick (2003) analysed the relationship between a corporate governance indicator and the corporate performance in the future. The integrated database of the open source material of the Investor Responsibility Research Center was used, and 24 corporate governance indicators, which totalled the corporate-governance activity of each company, were defined. As a result, the performance of the democratic company was better than that of the dictatorial company.

According to Johnson, Moorman and Sorescu (2009), when considering the concentration of enterprise on an industrial classification, corporate governance was neutral toward the corporate performance. According to Bhagata and Bolton (2008), the work by Gompers et al (2003) was updated, and a director's stock possession, the separation of the roles of the CEO and chairperson, etc. correlated significantly with performance, but the governance indicator was not significantly correlated with performance. Daines, Gow and Larcker (2009) found hardly any of the corporate governance indicators marketed overseas had a significant correlation with corporate performance.

Thus, in previous empirical studies, the direct relationship of a corporate governance and financial performance is not necessarily verified, but various problems, such as the appropriateness of an indicator and the robustness of relationship, are pointed out. Börsch-Supan and Köke (2002) pointed out the necessity of considering problems such as internal validity, sampling bias and intervention / control variables and a measuring residual, when conducting a quantitative research of corporate governance.

2.3. Risk management and corporate governance

According to Deloach (2000), risk management is closely related to an intensification of corporate governance. Risk management is an approach, which manages not only a financial risk but all major business risks and opportunities for the purpose of a maximization of the enterprise value as a whole company. In order to manage a risk, a structured orderly approach – by which a company evaluates the uncertainty faced regarding value creation, and adapts a strategy and a process – talented people, technology, and a knowledge of the management objective are required.

According to the Turnbull reporting (Institute of Chartered Accountants in England and Wales, 1999) of a registered company's internal control, the reputation risk relevant to corporate social responsibility is contained in the internal risk, which the director of a company should supervise. A lack of understanding and incorrect management by the top manager about a relationship with the stakeholder in the work process of an enterprise activity are directly evaluated on the stock market. Furthermore, it leads to a deterioration of performance directly through consumers' product choice, and damages an enterprise's long-term value through the lowering of the company's social reputation and reliability. The social influence of an enterprise's activity includes the risk to continuation and the sustainability of a company through various evaluations.

2.4. Corporate reputation and corporate governance

Rumelt (1984) suggests increasing reputation makes imitation by other companies increasingly more difficult and creates a stable competitive advantage. According to Fombrun and van Riel (2004), regarding the relationship with employees, good corporate reputation attracts many applicants for a job, and increases an employee's loyalty, motivation, sense of participation and commitment. On a customer's purchase decision-making process, a desirable corporate reputation can increase the reliability of a company, convert the level of the friendly impression of a company into a product, and lead to new customer acquisition, a price premium upturn and the repeat purchase of an existing customer. As a result, the company can achieve a sustainable sales increase. In addition, a good corporate reputation affects the investor's satisfaction level and loyalty, and the content of an analyst's report, and can raise the performance to above market average.

Cravens and Oliver (2006) proposed the model of reputation management using a balanced scorecard. First, employees are set at the beginning of a reputation management process. That is because a product and service of high quality cannot be provided without the efforts of the employees. The reward system connected to the balanced scorecard turns into a management control system, which supports that employees promote reputation management. Thus the financial performance of a reputable company improves. Eventually, corporate reputation becomes an asset that is difficult to imitate and gives a sustained competitive advantage.

2.5. Corporate governance, corporate social responsibility, and creating shared value

The Global Reporting Initiative (2000, 2002) proposed the 'triple bottom-line' report, which measures economic and social-environment performance. It proposed that companies include a vision, a strategy, the outline of their organization, a corporate governance frame, a management system, and a performance indicator in a report regarding a triple bottom line.

According to Sarkis (2001), an organizational mechanism is required to reduce environmental impact through the innovation of the diversified processes of the whole company. In order for a company to reduce its environmental impact, it is more effective for all workers to study an environmental activity and to participate in it rather than it being the responsibility of an environmental manager. For example, benchmark installation for all workers' object, and an introduction of the evaluation method of the performance of a product and a production process are effective. Thus, a change is not effective and sustainable without corporate governance. According to Friedman and Miles (2001), the corporate governance system aimed at a sustainable management and the long-term improvement in an enterprise's value includes finding solutions to societal, environmental and economic problems. And if corporate social responsibility (CSR) is not integrated by the corporate governance related to an enterprise value, long-term management is not successful. For example, in Britain, from the end of the

1990s, companies began to include society, the environment and economic problems in the framework of corporate governance. According to Schuler and Cording (2007), it has been difficult for the top managers to tackle CSR because the relationship between the social performance and the economic performance of a company is not clear. And it is argued that a stakeholder's behaviour connects the two.

Porter and Kramer (2011) presented the shared-value strategy with the aim of realizing simultaneous corporate value and social value, when a company tackles strategically a wide range of social problems in addition to environmental problems. Creating shared value (CSV) is a corporate strategy that aims to achieve sustainable growth on a long-term basis by co-existing with society rather than merely maximizing the short-term profits.

CSV within a company and a society can attract attention with the expansion of enterprise activity, as well as trans-nationalization. Porter and Kramer (2011) described the difference between conventional CSR and a CSV strategy, taking fair trade as an example. Shared value is not about personal values. Nor is it about 'sharing' the value already created by firms – a redistribution approach. Instead, it is about expanding the total pool of economic and social value. A good example of this difference in perspective is the fair trade movement in purchasing. Fair trade aims to increase the proportion of revenue that goes to poor farmers by paying them higher prices for the same crops. Though this may be a noble sentiment, fair trade is mostly about redistribution rather than expanding the overall amount of value created. Instead, a shared value perspective focuses on improving growing techniques and strengthening the local cluster of supporting suppliers and other institutions to increase farmers' efficiency, yields, product quality and sustainability. This leads to a bigger slice of revenue and profits that benefit both the farmers and the companies that buy from them. Initial investment and time may be required to implement new procurement practices and develop the supporting cluster, but the return will be greater in terms of economic value and the broader strategic benefits for all participants.

2.6. Management control system and a corporate governance

According to Simmons (2000), the management control system can be categorized into four: (a) belief systems (scheme of an organization goal); (b) boundary systems (compliance observance); (c) diagnostic control systems (conventional style); and (d) interactive control systems (scheme of communication). In order for a manager to orient a company, to make strategic decisions and to achieve an objective, a performance measurement system and a control system need to be utilized. A performance measurement system enables the comparison to be made between a strategic goal and an actual result, and helps to assess the strategy execution. A top manager can maximize return on management by designing a performance measurement system and a control system to become a tool for utilizing the limited time and capability most effectively.

Kaplan and Norton (1992) introduced the balanced scorecard (BSC) as a many-sided performance measurement system that used four perspectives. Subsequently, the strategy map (Kaplan & Norton, 2000), which specifies the cause–effect relationship between four perspectives, a strategic goal, and a key performance indicator was devised. It is possible to connect a strategy and tactics to a performance-appraisal criteria, to set up not only a financial indicator but also a non-financial indicator, and to evaluate strategic formulation, progress and results. The financial perspective is an indicator of growth potential and profitability. A customer's perspective is an indicator regarding customer product / service, customer relations and customer image. The perspective of an internal process is an indicator regarding operational control, customer management, the innovation process and the regulation / social process. The perspective of learning and growth is an indicator regarding human capital, information capital and organization capital.

Here, the perspective of the customer, the internal process and learning and growth is a non-financial measurement. According to Andersen, Fornell and Lehmann (1994), some non-financial measurements measured appropriately can predict future financial performance. Meyer (2002) pointed out the causal chain of a financial scale and a non-financial scale, noting that the non-financial measurement was a leading indicator, which predicts future financial performance.

3. HYPOTHETICAL DERIVATION

Next, a survey hypothesis is derived based on previous research. The objective of this research is not to deal with a corporate governance passively and from a sense of obligation, but to consider corporate governance that contributes strategically to the sustainable growth and long-term revenue of a company. According to previous researches, the notion of a corporate governance is based on the relationship with diverse stakeholders, and directs the direction of a company. Based on a corporate social responsibility, with the transformation of a company and a society, the role of corporate governance evolves and has diverse sides. A corporate governance has a close relationship with various activities of companies, such as risk management, corporate reputation, and a triple bottom line.

The fundamental factor of corporate governance is surveillance and management for rationalization, fairness and the transparency of the organization members' activities. This aspect removes the negative factor on an enterprise activity, such as compliance thoroughness, the prevention of an illegal product and an illegal work process, and the deterrence of organizational concealment. For example, external check functions, such as an outside board member and an independent committee, may be applicable.

On the other hand, not only the formation of a scheme of surveillance or deterrence but also personnel training and the formation of a corporate culture, in which employees autonomously behave actively in the way seen as desirable for the company or society, are useful. For example, an understanding of the firm's vision, the trust and a sense of togetherness between a manager and an employee, a delegation of power, workplace revitalization, an unrestrained corporate style, etc. may be applicable.

Furthermore, not only the observance of legislation and rules but the execution of corporate social responsibility as a so-called corporate citizen is important. A company's existence is embedded in society. By contributing to a community improvement in response to a request from the society which surrounds a company, a company builds a good relationship with that society and can grow sustainably. For example, the diversity/inclusion of employment, the formation of a healthy workplace, social-environment international certification (International Standardization Organization etc.), etc. may be applicable.

And responding to a social problem, an environmental problem, etc. may not only be the execution of a social responsibility but also a business opportunity from a long-term perspective, and may result in the creation of a shared value between society and the company. For example, the development of products with high safety and low environmental impact may differentiate a company, and such an improvement in the business process in terms of low energy consumption, lower emissions, and a high resources efficiency can increase the cost-competitiveness of a company. In addition, contributing to the infrastructure of a local society and creating jobs in a developing country may lead to market extension on a future. Such activities require innovation, and if a company succeeds in innovation, it may become a high entry barrier for competitors and may contribute to a long-term and sustainable revenue.

As mentioned above, if corporate governance is considered in a broad sense, some grouping axes can be considered. First, one axis is 'passive–active'. A passive corporate governance mainly aims to observe the rules and avoid risks. Meanwhile, an active corporate governance mainly aims to create a market and to add value to a company.

In addition, the 'inside–outside' of an organization can be considered as another axis for classifying a corporate governance. An inside corporate governance mainly aims at surveillance, management or training, and transformation of members inside the organization. An outside corporate governance is mainly a corporate governance that aims at improvement in problem solving or in the relationship toward the external stakeholders of the organization.

Using these two axes, a corporate governance can be classified into four quadrants and their relationship is shown in Table 1. Corporate governance regarding compliance is mainly classified into the quadrant of the passive and inner side. The corporate governance regarding a corporate citizen is mainly classified into the quadrant of the passive and outside. Corporate governance regarding corporate culture is mainly classified into the quadrant of the active and inner side. Corporate governance regarding CSV is mainly classified into the quadrant of the active and outside.

	Passive	Active
Outside	Corporate Citizen	CSV
Inside	Compliance	Corporate Culture

Table 1. Types of corporate governance

In addition, according to previous researches, a corporate governance is an organized activity. In order to achieve the aim of a corporate governance, just undertaking one individual activity only for corporate governance is not enough. For example, a series of enterprise activities, such as research and development, production, and sales, are closely related to the realization of the objectives of a corporate governance, respectively. It is thought that the effect of corporate governance increases by adjusting usual activities with the objective of corporate governance as a scheme of the whole company.

With regard to the strategic theory, Porter (1985) explained that cooperation of activities added to the value of a company through the notion of a value chain. A value chain consists of a series of main activities from procurement to after-sale support, and a series of support services, such as research and development and personnel management. And if the fit among those activities is strong then this becomes a competitive advantage.

That is, the activities of a company can raise the value added and increase the competitive advantage of a company, and the activities can also improve a corporate governance. Therefore, it is desirable for the objectives of a corporate governance and the strategic goals of a company to conform to each usual activity. A synergistic effect is mutually expected if an activity that increases corporate governance, and an activity that raises competitive advantage are conformable.

As a general type of strategy theory, the strategic theory represented by Porter (1985) is classified into a positioning school (Mintzberg, Ahlstrand & Lampel, 2005), and mainly takes notice of the differentiation with competitors on the market. In addition, there is the resource-based strategy (Wernerfelt, 1984; Barney, 1991), and an organizational capability (Ulrich & Lake, 1991), among others which observe the organization and talented people inside a company. Else, remarks have gathered for strategic theories that observed the alliance and network outside an organization instead of individual firms (Nalebuff, Brandenburger, & Maulana, 1996; Gawer & Cusumano, 2002,) in more recent years. Thus, in this research the following hypothesis is formulated: the synergistic effect of a corporate-governance activity and the strategic activity of companies – such as positioning, an organizational capability or a network – raises the performance of a company.

In addition, according to the previous researches on management control, the significance of the strategic management is pointed out. In strategic management, the operating policy at top management level, the management at middle-management level and the activities at the frontline of the operation are consistent across the whole company. Based on the strategic key performance indicator set at each level, each target setting and feedback are performed. That is, paths from various daily activities on various sections to the short-term or long-term revenue of a company are expressed as a relationship diagram of various intermediary strategic performance indicators.

It is thought that the activity that aims at improvement in corporate governance cannot be as easily directly connected to short-term corporate earnings compared with sales promotion, a productive activity, etc. However, it is thought that tackling a corporate governance strategically may be connected to the sustainable growth of a company and improvement in mid- and long-term revenue through improvements of company quality, such as an improvement in the evaluation from a customer, transparency of a work process, and personnel training, etc.

The relationship of each above hypothesis is expressed as shown in Fig. 1.



Fig 1. Hypotheses of cause-and-effect relationship

4. RESEARCH DESIGN AND RESULTS

4.1. The outline of a questionnaire

Next, the questionnaire was conducted in order to verify each of the above-mentioned hypotheses. The question items of the questionnaire were set up based on each of the above-mentioned hypotheses. That is, it is a question item group regarding corporate governance, strategic activity, strategic key performance indicator, business growth and revenue, respectively.

The question item regarding corporate governance was divided into four types based on two axes of the above-mentioned hypothesis. The question item regarding strategic activity was considered as three groupings of positioning, organizational capability and a network, based on the above-mentioned hypothesis. Regarding the strategy key performance indicator, the customer's perspective, the perspective of a work process, the perspective of learning and growth, and the perspective of finance were adopted according to the balanced scorecard suggested to be widely used and comprehensive, based on the above-mentioned previous research survey. Among these, the perspective of finance consists of sales-amount expansion, profitability ratio, etc., and is equivalent to the question item regarding business growth and revenue. In addition, the three perspectives of the customer, work process and learning growth are non-financial indicators and are leading indicators. That is, they are thought to be the indicators that contribute to future finance in the long run. In addition, since four perspectives of a balanced scorecard were mainly thought to be the indicators regarding an economy among the triple bottom lines of a company, in addition to the four perspectives, the perspective regarding society and the environment was added. The response form of all the question items was made into a five-point Likert scale (Strongly agree/agree/don't know/disagree/strongly disagree).

As a respondent of a questionnaire, the active executive or career-track bureaucrat person of the company was requested via the class of the business school in Japan, which the author is in charge of, and the social network. The survey period was in June, 2015. The multiple answers from the same company were extracted to one response, the deficit value, the ceiling effect, the floor effect, the reliability scale, etc. were evaluated, and the number of effective respondents was 51 persons.

As an analytic process, two or more question items of each question item group were first collected by principal component analysis. Next, based on each of the above-mentioned hypotheses, regression analysis was applied concerning the principal component score of the collected principal component. SPSS ver.23 by an International-Business-Machines company was used for the statistical analysis.

4.2. Principal-component-analysis result

When the principal component analysis was conducted on the question item group regarding a corporate governance, one principal component 'was extracted, each concerning four hypothetical types. Respectively, the compliance principal component, the corporate-citizen principal component, the corporate culture principal component, and the CSV principal component were named.

When the principal component analysis was conducted on the question item group regarding a strategic

activity, three principal components were extracted along with the hypothesis. Respectively, the positioning principal component, the organizational-capability principal component and the network principal component were named.

When the principal component analysis was conducted on the question item group regarding a strategic key performance indicator, business growth, and revenue, six principal components were extracted along with the hypothesis. The question items regarding the perspective of finance were divided into the principal component regarding the present profitability ratio etc., and the principal component regarding the growth of sales amount, etc. Respectively, the profit principal component and the growth potential principal component were named. The question items regarding the customer's perspective, the perspective of a work process, and the perspective of learning and growth were collected by one principal component along with the hypothesis, respectively. The customer principal component, the work-process principal component, and the learning and growth principal component were named. The question items regarding social performance and environmental performance were collected by one principal component. The social-value principal component was named.

4.3. Multiple-linear-regression-analysis result

Next, regarding each principal component, multiple linear regression analysis was conducted one by one based on each hypothesis. First, the profit principal component was set as the objective variable, other principal components were set as the explanatory variable, and the principal component analysis was conducted. Next, the growth potential principal component was set as the objective variable, all the principal components other than a profit principal component were set as the explanatory variable, and the principal component analysis was conducted. Next, each strategic key performance indicator was set as the objective variable, respectively, all the corporate-governance principal components and strategic activity principal components were set as the explanatory variable, and the principal component analysis was conducted one by one. Only the principal component with a significant relationship was extracted using a stepwise procedure as the method of each multiple linear regression analysis. The result of the multiple linear regression analysis is as in Fig. 2.

5. CONSIDERATION

Next, each hypothesis is verified based on the statistical analysis result of a questionnaire. In the first place, various activities regarding a corporate governance were not directly connected with financial results, such as sales or profit, as a whole. However, each activity was connected with various improvements of a company, various strategic key performance indicators increased, and being indirectly connected with a financial result was shown quantitatively. This is in keeping with the hypothesis on this research.

Next, according to the individual regression analysis, the returns of a company are first brought by a positioning strategy and the growth potential. A positioning strategy is a competitiveness in the market at present'. A growth potential is a source of the corporate profitability in the future. The growth potential is brought by a customer, a work process, and learning and a growth. This is in accordance with the thesis of Kaplan et al (1992). In addition, the society and the environmental value were also related to the growth potential of a company. This is in accordance with the Porter et al (2011).

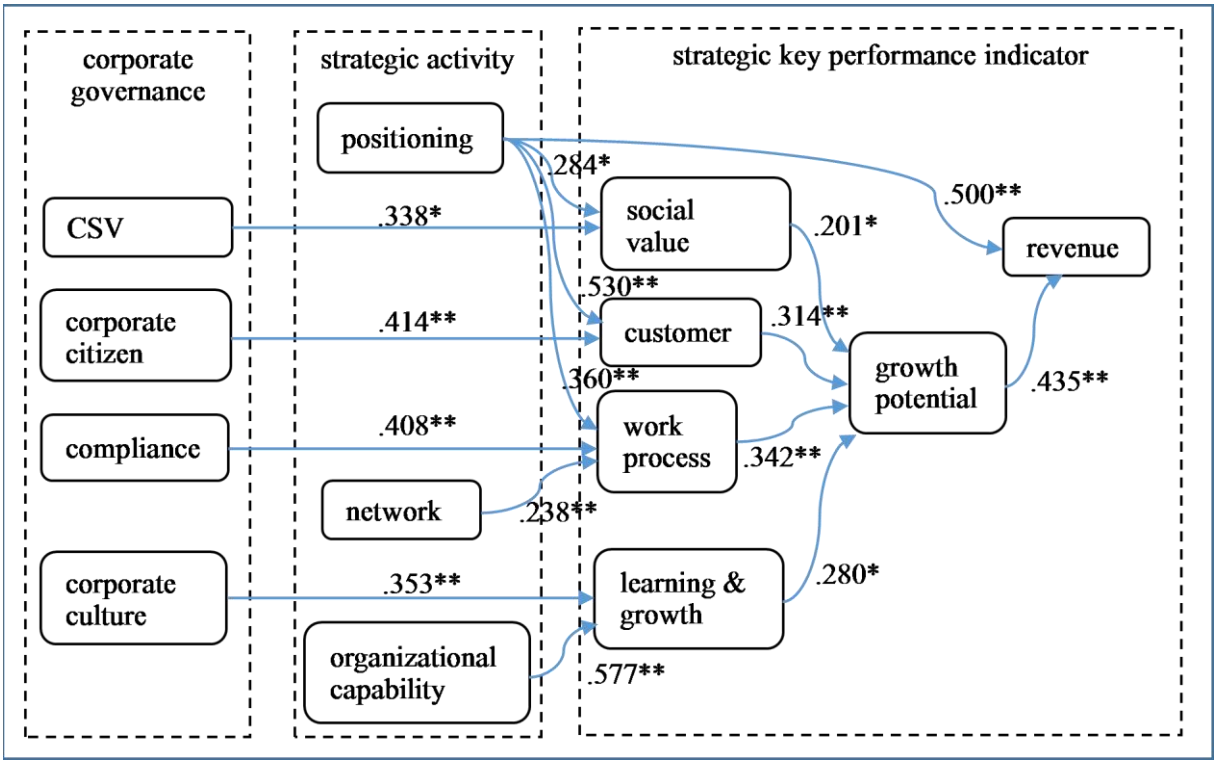


Fig 2. The results of multiple-linear regression analysis

Next, four types regarding a corporate governance are considered, respectively. To begin with, the compliance activity, which is a passive and inner side corporate-governance type, improved the quality of the work process. It is thought that putting compliance into practice clarifies a work process, it increases transparency, and increases productivity and operational efficiency. In addition, work processes, such as research and development, production, distribution, etc. of a company, are performed in cooperation with various external companies etc. It is thought that an improvement in the compliance of a company is related to the cooperation with an external company etc. It is thought that by improving relationships with an external cooperation company etc. a work process is improved more.

Next, it is thought that corporate-citizen activity, which is passive and an outside corporate-governance type, improves the relationship with a customer. It is thought that the activity regarding a corporate citizen improves the reputation of the company in the eyes of the customer, and increases customer satisfaction. It is thought that, through a corporate-citizen activity being connected with the product of a company, the method of service offered, etc., the relationship with a customer is improved further.

Next, it is thought that the corporate culture activity, which is an active and inner side corporate-governance type promotes the learning and growth of a company. It is thought that with every employee belonging to a company sharing the philosophy of that company, and the workplace being activated, the growth potential of a company is supported. Furthermore, it is thought that by corporate culture being good and also organizational capabilities being high, the learning and growth of a company are further promoted.

And it is thought that the CSV activity, which is an active and outside corporate-governance type raises the social value of a company. A CSV activity is the improvement of a society or an environmental problem by the primary business of the company, and is promoted by innovations, such as a product, service, etc. of that company. When the product and service of a company increase the competitiveness and imitation difficulty through innovation, it is thought that the profitability of a company is increased. That is, the innovation for improving a society and environmental value also raises the economic value, and means the simultaneous achievement of a triple bottom line.

From above, it became clear that the influence that the activities included in a corporate governance have on financial results changes with the kind of each activity. One of the causes of the ambiguity of the relationship of corporate governance and financial results in previous research up to now may be the diversity of the activities regarding corporate governance. That is, while the activities and results that are related to a corporate governance were intermingled, possibly a unified result of the analysis was hard to obtain regarding the cause–effect relationship. It can be said that the typification by two grouping axes (activity–passivity, inside–outside) of corporate governance in this research was effective in showing the correlation between corporate-governance activities and strategic key performance indicators. In addition, the synergy effect of the daily activities that increase business competitiveness also became clear. Thus, the possibility of strategic corporate governance became clear by the cause–effect relationship between a corporate-governance activity and a financial result having been verified.

6. CONCLUSION

The objective of this research is to clarify quantitatively the possibility that a corporate governance will raise the revenue of a company and its condition. Although the enterprise activity regarding corporate governance is essential, it tends to be realized that it sometimes conflicts with growth and the improvement in the revenue of a company. In addition, in previous researches, the actual proof of the results regarding the relationship is not necessarily the same. One reason the results are discordant could be that the relationship between a corporate-governance activity and profitability is indirect, and it is possibly hard to connect this with short-term revenue at least. In addition, since various notions and activities are included in a corporate governance, the analysis of the cause–effect relationship may have become complicated. This research appropriately typifies the activities included in a corporate governance, and clarifies the separate paths that may connect each type of corporate governance to long-term revenue.

One implication of this research is that it was quantitatively shown by advancing a strategic corporate governance that the sustainable growth of a company and the improvement in long-term profitability are possible. It is expected that a top manager's decision making in a company will be supported by the quantitative results of the analysis.

A limitation of this research is that the subject of the survey is limited to Japan. There is a possibility that the trait of business environment peculiar to Japan has affected the search results. In addition, since it is based on a questionnaire response by business people who have researched corporate strategy, corporate governance, social responsibility, etc. at the business school, there may be a possibility of sampling bias. Therefore, future research subjects should use a broader sample and also conduct an international-comparison.

REFERENCES

Anderson, E., Fornell, C. & Lehmann, D. (1994) Customer satisfaction, market share, and profitability: Findings from Sweden. *Journal of Marketing*, 58 (3), 53–66.

Barney, J. (1991) Firm resources and sustained competitive advantage. *Journal of Management*, 17 (1), 99–120.

Berle, A. & Means, G. (1932) *The Modern Corporate and Private Property*. New York, NY, McMillian.

Bhagata, S. & Bolton, B. (2008) Corporate governance and firm performance. *Journal of Corporate Finance*, 14 (3), 257–273.

Blair, M. (1995) *Ownership and Control: Rethinking Corporate Governance for the Twenty-First Century*. Washington, D.C., the Brookings Institution.

Börsch-Supan, A. & Köke, J. (2002) An applied econometricians' view of empirical corporate governance studies. *German Economic Review*, 3 (3), 295–326.

Brickley, J.A., Smith, C.W. & Zimmerman, J.L. (2005) Corporate governance, ethics, and organizational architecture. In: Chew. D.H. Jr. & Gillan, S. L. (eds.) *Corporate Governance at the Crossroads*. NY, McGraw-Hill, 103–114.

Cadbury, A. (1992) *Report of the Committee on the Financial Aspects of Corporate Governance*. London, Gee.

Cravens, K.S & Oliver, E.G. (2006) Employees: The key link to corporate reputation management. *Business Horizons*, 49 (4), 293–302.

Daines, R., Gow, I. & Larcker, D. (2009) Rating the ratings: How good are commercial governance ratings? *Journal of Financial Economics*, 98, 439–461.

Deloach, J. (2000) *Enterprise-Wide Risk Management: Strategies for Linking Risk & Opportunity*. London, Financial Times Management.

Fombrun, C.J. & Van Riel, C.B. (2004) *Fame & Fortune: How Successful Companies Build Winning Reputations*. NJ, FT Press.

Freeman, R.E. (1984). *Strategic Management: A Stakeholder Approach*. Boston, Pitman.

Friedman, A.L. & Miles, S. (2001) Socially responsible investment and corporate social and environmental reporting in the UK: An exploratory study. *British Accounting Review*, 33 (4) 523–548.

Friedman, M. (1970) The social responsibility of business is to increase its profits. *New York Times Magazine*, September 13 (32–33), 122–124.

Gawer, A. & Cusumano, M. A. (2002) *Platform Leadership: How Intel, Microsoft, and Cisco Drive Industry Innovation*. Boston, Harvard Business School Press.

Global Reporting Initiative 2000 (revised 2002) *Sustainability Reporting Guidelines*. Boston, MA, Global Reporting Initiative.

Gompers, P., Ishii, J. & Metrick, A. (2003) Corporate governance and equity prices. *The Quarterly Journal of Economics*, 118 (1), 107–155.

Institute of Chartered Accountants in England and Wales (1999) *Internal Control: Guideline for Directors on the Combined Codes*. London, Institute of Chartered Accountants in England and Wales.

Johnson, S.A., Moorman, T.C. & Sorescu, S. (2009) A Re-examination of corporate governance and equity prices. *The Review of Financial Studies*, 22 (11), 4753–4786.

Kaplan, R.S. & Norton, D.P. (1992) Balanced scorecard: Measures that drive performance. *Harvard Business Review*, 70 (1), 71–79.

Kaplan, R.S. & Norton, D.P. (2000) Having trouble with your strategy? Then map it. *Harvard Business Review*, 78 (5) (September–October 2000), 167–176.

Meyer, M. (2002) Finding performance: The new discipline in management. In: Neely, A (ed.) *Business Performance Measurement: Theory and Practice*. Cambridge, UK, Cambridge University Press, pp. 51–62.

Mintzberg, H., Ahlstrand, B. & Lampel, J. (2005) *Strategy Safari: A Guided Tour Through The Wilds of Strategic Mangament*. New York, Simon and Schuster.

Nalebuff, B.J. Brandenburger, A. & Maulana, A. (1996) *Co-opetition*. London, Harper Collins Business. .

Organisation for Economic Co-operation and Development (2004) *Principles of Corporate Governance*, Revised version. Paris, OECD Publications Service.

Porter, M.E. & Kramer, M.R. (2011) Creating shared value. *Harvard Business Review*, 89 (1/2), 62–77.

Porter, M.E. (1985) *Competitive Advantage: Creating and Sustaining Superior Performance*. NY, Free Press.

Rumelt, R.P. (1984) Toward a strategic theory of the firm. In: Lamb, RB. (ed.) *Competitive Strategic Management*. Englewood Cliffs, N.J., Prentice-Hall. pp. 556–570.

Sarkis, J. (2001) Manufacturing's role in corporate environmental sustainability. *International Journal Operations & Production Management*. 21 (5), 666–686.

Schuler, D.A. & Cording, M. (2007) A corporate social performance-corporate financial performance behavioral model for consumers. *Academy of Management Review*, 31 (3), 540–558.

Simmons, R. (2000) *Performance Measurement and Control Systems for Implementing Strategy*. Upper Saddle River, NJ, Prentice Hall.

Ulrich, D. & Lake, D. (1991) Organizational capability: Creating competitive advantage. *The Executive*, 5 (1), 77–92.

Wernerfelt, B. (1984) A resource-based view of the firm. *Strategic Management Journal*, 5 (2), 171–180.