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The Link between Corporate Governance Mechanisms and a Company's Popularity as a Workplace

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1. Introduction

The contemporary corporate landscape stands at the intersection of dynamic global forces, technological advancements, and evolving societal expectations. In recent years, the focus within the field of corporate governance has shifted more towards aspects such as Corporate Social Responsibility (CSR) or Environmental, Social, and Governance (ESG) practices. Due to this emphasis on socially and environmentally responsible practices, companies strive to find balance between their operational strategies, with their focus going beyond mere financial performance, and the broader societal and environmental concerns that shape stakeholder expectations. The concept of corporate governance involves the structure by which organisations are supervised and lead. This includes a set of mechanisms aimed at aligning the interests of management, the board of directors, controlling shareholders, minority shareholders, and various stakeholders (Campbell & Mínguez-Vera 436).

This thesis focuses on a comprehensive exploration of the dimensions of corporate governance, going beyond the traditional aspects of financial metrics in order to investigate its influence on the choices made by potential employees. The contemporary workforce, characterised by a diverse set of aspirations, values, and expectations, brings along a varied set of considerations when deciding for or against a workplace. The origin of this study lies in the recognition of a gap within existing literature. While corporate governance has been extensively studied in the context of financial performance and overall organisational success, there is little peer reviewed literature on how governance structures impact an individual's decision regarding their willingness to apply to a company.

At its core, this study aspires to answer the following question: what aspects of corporate governance show significant influence over a potential employee's decision to choose one company over another? Based on this seemingly straightforward research question, a set of underlying assumptions arises. These assumptions will be investigated by targeting two main hypotheses. The first hypothesis addresses the importance of Environmental, Social, and Governance (ESG) practices. It supposes a positive association between a company's ESG ranking and its popularity as a workplace, exploring the idea that a commitment to ethical, sustainable, and socially responsible practices acts as a magnet for individuals aligning with socially conscious and responsible organisations. The second hypothesis extends its focus to the way a company's board is composed, emphasising diversity. In the context of this study, a diverse board refers to the variety of board members regarding age, gender, background and whether they are insiders or independent board members. It proposes a positive association between a diverse board and the popularity of a company as a workplace, delving into the notion that a diverse leadership team not only contributes to a broader spectrum of perspectives within the organisation but also enhances the company's allure to individuals valuing inclusivity and diversity in their professional pursuits.

In the subsequent chapters of the paper, the methodology, as well as the main insights of the questionnaire-based study are analysed. The research and analysis contribute to academic scholarship, as well as pragmatic considerations of organisational leaders. The findings may serve as a compass, guiding companies and leadership in their pursuit of success, not just in financial terms but also in the realms of transparency, ethical conduct, and social responsibility. In essence, this study explores the evolving landscape of corporate governance, where its influence extends beyond boardrooms to better understand the decision-making process of contemporary workforce.

2. Literature Review

Corporate governance, a cornerstone of modern business management, addresses the relationship of principles, practices, and regulations that govern and structure organisations as well as their stakeholders. This chapter focuses on a comprehensive explanation of corporate governance, encompassing its multifaceted definitions, diverse forms, distinct manifestations in Europe, and specific nuances within Austria.

The first section considers the essence of corporate governance by addressing various definitions that capture its fundamental nature. The subsequent segment explores multiple forms of corporate governance, reflecting how diverse cultures, economies, and legal frameworks shape governance structures. This section encompasses the shareholder-oriented Anglo-Saxon model, the stakeholder-focused Continental European model, and the nuances between unitary and dual-board systems. Transitioning to a European perspective, the following part of the thesis investigates a variety of corporate governance practices across the continent. Zooming into Europe further, the final section of this chapter unveils the main characteristics of corporate governance within Austria. This segment addresses the regulatory landscape, ownership dynamics, and board compositions that characterise Austrian companies, indicating how Austrian corporations differ from European or American institutions.

In short, this literature review chapter contributes to an in-depth understanding of corporate governance, encompassing its definitions, forms, European manifestations, and the distinctive features within Austria.

2.1. Corporate Governance

Corporate governance, often abbreviated CG, has been in use since the early nineteenth century. Its roots can be traced back to the emergence of limited liability corporations (LLCs). However, the relevance of corporate governance was not fully recognised until agency theory was well established in academic literature and a business context. As agency theory deals with the separation of ownership and control in a company and the problems that may root from this, corporate governance is often associated with this theory (Ahmad & Omar 73).

As Kogut (2012, 53) has convincingly summarised: "the central corporate governance problem is that self-interested managers may pursue their own goals at the expense of owners' welfare. The field of corporate governance investigates the variety of available mechanisms to align owner (shareholder) interests with those of decision makers (the CEO and senior managers)." Consequently, the goal of corporate governance practices and mechanisms is to maintain trust in the company, ensure the owners' interests are met and maximise shareholders' value (Ahmad & Omar 74). In subsequent chapters, agency theory and the resulting agency problem will be discussed in more detail, but it is worth mentioning that one of the main issues corporate governance mechanisms tackle is the potential conflict of interest between agents and principals, in other words between the shareholders and the management (ibid. 74).

Regarding the term corporate governance, it is difficult to impossible to provide a universal definition of the term, as it encompasses a multitude of aspects. To give a more complete definition, Ahmad and Omar (2016, 74) have summarised the main aspects of corporate governance as follows:

> "[The] [c]ontemporary concept of CG is broader and multi-disciplinary in nature, and incorporates several organizational functions such as management, finance, accounting, business law, business ethics and economics simultaneously. It also deals with other corporate aspects like accountability, transparency, disclosure, social responsibility, fairness and relationship among board of directors, shareholders and stakeholders […] it defines the regulations, policies, methods and structure to direct and control the organization effectively."

In short, it can be said that corporate governance deals with the direction, ownership and control of companies. It also refers to the guidelines and objectives that wheels the management of an organisation. Further, corporate governance addresses how rights and responsibilities are spread within a board, the management of a company and its share- and stakeholders (Ahmad & Omar 74).

2.1.1. Forms of Corporate Governance

There are various models of corporate governance that are to be found in academic literature, however, the Anglo-Saxon model and the Continental European model are considered the two basic models when dealing with corporate governance and will thus be addressed in more detail. Furthermore, corporate governance models typically found in Austria will be discussed in order to gain a deeper understanding of the similarities and differences between the two main models of corporate governance and the Austrian model.

2.1.2. The Anglo-Saxon Model

The Anglo-Saxon model is one of the two central models in the research field of corporate governance. As stated by Kogut (53), corporate governance focuses on the link between ownership and control within a company. The Anglo-Saxon model is one way to approach the dichotomy of ownership and control within an organisation. The Anglo-Saxon system is built upon the idea that self-interest and decentralised markets can operate in a self-regulating, equilibrium manner (Cernat 149). The model is focussed on the shareholders and their interests, which is why it is frequently also referred to as the shareholder-value model (Kogut 55).

Commonly, businesses within Anglo-Saxon economies are marked by distinctly separating ownership and control. The Anglo-Saxon model further views managers as internal agents, who pursue the interests of their investors rather than their own, with the aim of optimising their returns on financial capital. Nevertheless, matters concerning managerial transparency and ethics frequently spark contentious debates within publicly traded corporations (Kogut 54). Further, ownership of shares is frequently dispersed among numerous individuals, each holding a minor portion. This distribution of ownership led to a decrease in the control wielded by individual owners. Consequently, company managers often found themselves capable of advancing their personal interests to the detriment of the owners (Cenat 150).

Due to the separation of ownership and control, some questions regarding corporate efficiency, aligning interests, monitoring managers, the role of boards and managerial ethics typically arise with this model. Anglo-Saxon economies exhibit several significant distinctions from their non-Anglo-Saxon counterparts; evident variances encompass aspects such as the stock market's role within the national economy, levels of investor activism, corporate board composition, the frequency of takeover endeavours, and the dispersion and consolidation of company ownership. Ownership distribution in Anglo-Saxon economies typically displays a more extensive dispersion compared to their non-Anglo-Saxon or continental European equivalents, where family-owned enterprises frequently represent the majority of companies. Furthermore, scholars, such as Tirole (3), address an issue commonly associated with this corporate governance model, namely that the so-called natural stakeholders of a company and their interests are frequently neglected, as the interests of investors are prioritised. This prioritisation occurs, as investors are given control rights and managerial compensation is aligned with the investors' interests.

Essentially, the corporate governance structures that underlie the Anglo-Saxon model consist of three main components, the shareholders, the managers and the internal monitors of a company, which is usually the board of directors. As explained by Kogut (2012, 56), the shareholders' mainly "supply finance to the firm and hold a monetary stake in the corporation; as 'principals', their return directly correlates with the economic performance of the firm".

Despite the criticism voiced above, the Anglo-Saxon model remains popular within certain economies, as it is frequently argued that by advocating the shareholders' interests, corporate governance structures are simplified and consequently efficiency and profit are increased (Kogut 56). The second principal element of corporate governance involves the board of directors, responsible for supervising the conduct and decision-making processes of corporate executives to ensure harmony between managerial actions and shareholder interests. Its primary function is to internally restrict managerial overreach; however, it often falls short of effectively curbing managerial authority (Shipilov, Greve, & Rowley 848). Given the surge in corporate governance scandals, numerous corporations have emphasised their commitment to transparency and ethical conduct by implementing reform measures such as more frequent financial reporting, regulations governing independent directors, the prohibition of executive chairmanship, and the formulation of corporate value statements (Kogut 57).

The concluding significant segment within the framework of corporate governance comprises managers. Managers might pursue initiatives that offer personal advantages but result in a reduced overall value for the company. Nonetheless, when equipped with appropriately designed incentives, managers need not exert a detrimental influence on the organisations they oversee. It is imperative to establish comprehensive and well-structured incentives, both explicit and implicit, in order to outweigh competing motives that might lead to deviations from proper conduct (Jong, Röell, & Högfeldt 511).

In the Anglo-Saxon model, despite the ample opportunities for executive misconduct, many companies adopt strategies that effectively guide management toward standard conduct and optimal decision-making. Clear-cut incentives, such as executive compensation linked to company performance, directly harmonise managerial motives with those of the company. Elaborate executive compensation packages usually encompass a blend of guaranteed remuneration and performance-linked pay; managers receive a guaranteed base salary and potentially earn bonuses, stocks, or stock options, the values of which positively correlate with company performance (Conyon & Murphy 644).

2.1.3. The Continental European Model

In this chapter the Continental European model will be addressed. The Continental European model of corporate governance integrates a dual-board structure, comprising an executive board consisting of executives and a supervisory board representing shareholders and employees. The supervisory board holds authority over matters such as executive appointments, compensation, management oversight, and assessment of significant business choices. While the composition of the supervisory board varies among European nations, in most instances, employees possess the privilege to nominate or suggest candidates for the supervisory board. Additionally, employees and labour unions hold considerable influence and actively contribute at the corporate level, setting this approach apart from the alternative model (Ahmad & Omar 77). Despite differences in mechanisms, ownership structures, and board compositions, corporate governance systems in continental European countries predominantly adhere to a stakeholders' perspective. The European Commission's foremost objective is to move towards a unified model by eliminating these discrepancies and achieving consistency in company law, corporate governance codes, and accounting and auditing standards among member states (Collier &

Zaman 2005). This initiative aligns with the Commission's aim to establish a single market for financial services and products.

The Continental European model is fundamentally based on the stakeholder theory, which will be addressed in more detail in a following chapter. In short, following Ahmad and Omar's (2016, 77) definition of this theory it can be said that: "The stakeholder theory takes a broader perspective and believes that managers' fiduciary duty is to safeguard the legitimate interests not only of shareholders but also of a broader group of internal and external stakeholders, such as employees, customers, suppliers, management itself, government, political and social groups, environment and society at large". Further, within this framework, the board's responsibility extends to protecting the concerns of both shareholders and stakeholders, not solely the former. Furthermore, the Continental European model exhibits significant differences in terms of ownership, board composition, managerial nature, and control. This model, rooted in the pursuit of stakeholder value maximisation, secures external funding primarily from banks and other financial entities, which also play a role in its control, alongside societal factors (Ahmad & Omar 77).

In summary, it can be said that the Continental European model as well as the Anglo-Saxon model of corporate governance are not only the dominant models in academic literature, but are also common in numerous economies. An analysis conducted by Ahmad & Omar (102), indicated notable disparities between these two models in terms of fundamental attributes, encompassing their objectives, ownership and control structures, board configurations, disclosure practices, management characteristics, CEO roles, accounting methodologies, as well as the rights and interests of both shareholders and management. It is worth noting that both models have received nearly equivalent levels of research and scrutiny. Although the two aforementioned models are doubtlessly the most common in literature, scholars such as Htay, Salman, and Meera (2013) introduced a novel and contemporary theory of corporate governance. This theory is aimed at fostering global harmonisation of corporate governance systems. It asserts that "Corporate Players must be responsible and accountable in discharging their duty to achieve socio-economic justice" (Htay, Salman, & Meera 2013, 9). Given that the Continental European model is rooted in a stakeholder-centric philosophy and adopts a comprehensive viewpoint by acknowledging the interests of all firm stakeholders, it is garnering increased global attention. This growing interest may potentially drive a tendency towards convergence over time, aligning various systems with the Continental European model.

2.1.4. Corporate Governance in Austria

In the previous chapters the two main corporate governance models in academic literature, the Anglo-Saxon model and the Continental European model, have been elaborated on. Although the latter is commonly found in many European economies, it is necessary to have a closer look at local corporate governance systems in order to fully grasp the differences and similarities between the two models discussed in the previous chapters and the situation in Austria.

Austria, similar to other countries like Germany, was late in developing a code for corporate governance. One significant aspect about corporate governance in Austria is that so-called joint stock companies usually follow a statutory two tier board model (Kalss, Burger, & Eckert 91). As opposed to the one-tier model, the two-tier model has two separate entities with different fields of responsibilities. Furthermore, a member of one executive body is prohibited from simultaneously being part of the other executive body. One benefit of the two-tier board model is the clarity of purpose and the clear distinction between supervisory and managerial functions in a company (Cadbury 73). Another advantage of the two-tier model is the possibility to represent the interest of other entities than shareholders without disturbing the responsibilities of the managing entity in operation towards the needs of a successful business. The Austrian public limited company, or joint stock corporation, abbreviated as AG (*Aktiengesellschaft*), finds its predominant application in companies with public ownership and those engaging in capital-intensive activities. The two-tier board which is common in most of the aforementioned companies usually consists of the management board, which is referred to as *Vorstand* in German, and the supervisory board, which is called *Aufsichtsrat* (Grünanger 352).

The organisational framework of Austrian joint stock corporations relies on three parts: the general meeting, the supervisory board, often abbreviated SB and the management board, MB. This arrangement is meticulously structured to ensure the segregation of powers. In the annual general meeting the supervisory board is elected for a duration of up to five years, but it holds the authority to prematurely terminate this appointment through a qualified majority. If a minority of shareholders amounting to 10% presents a petition, a court has the jurisdiction to remove supervisory board members from their positions for substantial reasons. The supervisory board subsequently designates a chairperson and a vice-chairperson, as stipulated by the articles of incorporation (Grünanger 352). Contrarily, the board of management assumes exclusive responsibility for the company's operations and remains unaffected by directives from either the annual general meeting or the supervisory board. Members of the management board within the public limited company possess a significant degree of autonomy in managing the company, subjects to compliance with legal regulations, articles of incorporation, and any established management board regulations or supervisory board resolutions. In instances of specific transaction types, mandatory supervisory board approval is stipulated by law, with monetary thresholds potentially outlined in the articles of incorporation or internal procedural guidelines. Unlike a private limited company (*GmbH*), the stock company does not permit direct shareholder instructions concerning individual business matters. Within the stock company, management board members are selected and removed by the supervisory board, while members of the latter are nominated by the shareholders' annual general meeting (ibid. 353). The appointment of an MB member, with a maximum tenure of five years and admissible reappointment, can only be revoked for substantial reasons during their term. For a SB resolution to be valid, a minimum of three members must be present, and a simple majority vote suffices unless the articles of association dictate otherwise (Grünanger 353). The supervisory board is required to meet at least four times a year to ensure regular meetings are maintained. Members of the supervisory board cannot delegate responsibilities to third parties, they may request or perform financial audits, they review financial statements of companies and they are obliged to be transparent, i.e. present their qualifications and experience before elections (ibid. 354).

Although the separation between the management and the supervisory board seems distinct, Grünanger (2010, 355) points out that: "[d]espite the strict separation of functions of supervisory board and management board members, supervisory board members may act for hindered management board members for a limited period of time. During that time, their SB function is suspended". Commonly members of the supervisory board define the specific roles and areas of responsibility for the management board. As regards the members of the supervisory board, approximately one third can be appointed by the work council of a company who then act as employee representatives. The remaining two thirds of supervisory board members is then elected by shareholders of a company. Further, in each board committee, there must be at least one member appointed by the works council, except in cases where the committee's purpose is specifically related to managing the company's relationship with management board members. The works council appoints employee representatives to the supervisory board, whether for a specific or an open-ended duration. Additionally, it is worth noting that it is clearly stipulated that the management board is obligated to consider the interests of employees while performing its managerial duties (ibid. 356). Employees' representatives have co-determination rights on the supervisory board, which forms part of the statutory Austrian system of corporate governance on top of the co-determination rights on an operational level in the form of work councils. An additional employee representative is appointed to the board if the number of shareholder representatives is not even. Regarding the rights as well as obligations of employee and shareholder representatives, it can be said that they are equal. As far as the board of directors is concerned it is commonly referred to as one of a number of internal mechanisms which are designed to make sure that the interest of shareholders and managers are closely aligned, and to discipline or remove ineffective management teams (Barnhart, Marr, & Rosenstein 329).

When talking about issues that commonly occur in companies due to their corporate governance structure, board diversity and independence are frequently addressed and criticised. Especially board diversity is a crucial factor in corporate governance as it has the power to enhance global relationships, increase efficiency in management and also strengthen independence, as people with different backgrounds, such as ethnicity, gender or culture, may have different points of view than a board of directors with a more traditional background (Kang, Cheng, & Gray 195).

Although there is no uniform consensus on what defines an outside or independent director, it is widely agreed on that the best practice for efficient corporate governance is to appoint a board of directors where the majority of members are outside directors. The reasoning behind this belief is that it is presumed that outside directors are likely to have a positive effect on the board's monitoring responsibilities. In order to be a supervisory board member in an Austrian company, the candidate should not have been a member of the management board or have occupied a management position in the company or one of the company's subsidiaries within the past 5 years (Grünanger 358-359).

2.2. Theoretical Framework

In the pursuit of understanding the dynamics of how corporate governance may influence a company's popularity as a workplace, this chapter delves into the theoretical framework that underpins this investigation. The theoretical foundation is a crucial cornerstone in shaping the lenses through which the complex interplay of organisational behaviour, governance structures, and decision-making processes are perceived and analysed. Within this chapter, three prominent theories that are essential for comprehension and more insight will be explored and expounded upon. The first theory that will be discussed in more detail is agency theory. Agency theory posits that conflicts of interest between principals, typically shareholders, and agents, often management, are inherent in organisations (Zattoni 231). The second theory that will be addressed is stewardship theory. Stewardship theory, in contrast to agency theory, presents an alternative perspective on the relationship between principals and agents, namely that principals will rather act as stewards than self-interested agents (Abdullah & Valentine 90). Finally, stakeholder theory will be taken into account, as it expands beyond the common principal-agent dyad, focussing on the importance of a broader network of stakeholders, including employees, customers or communities (Abdullah & Valentine 91). In addition to the three prominent theories mentioned above, another critical perspective that will be explored in this chapter is resource dependency theory. Resource dependency theory recognises the significance of external resources in an organisation's operations and decision-making processes. It asserts that organisations are reliant on external resources such as suppliers, customers, and regulatory bodies, and managing these dependencies is paramount for an organisation's sustainability and competitiveness. This theory sheds light on the strategies organisations employ to secure and control these external resources, thereby shaping their governance structures and influencing their attractiveness as employers (ibid. 92). Understanding the interplay between these four theories—agency theory, stewardship theory, stakeholder theory, and resource dependency theory—will provide a comprehensive framework for examining how corporate governance impacts a company's reputation as a desirable workplace.

2.2.1. Agency Theory

The first theory that will be addressed in more detail is agency theory. Agency theory is rooted in two fundamental assumptions. The initial premise revolves around the idea that all shareholders have uniform interests, allowing them to be collectively represented as a single principal entity. The second assumption centres on the belief that shareholders are sufficiently protected through the optimisation of residual income. These assumptions tend to hold true in publicly traded companies in Anglo-American contexts, where shareholders consist of both individual investors and substantial institutional investors. In these instances, their primary objective is to maximise the value of their investment, devoid of any other economic affiliations with the company (Zattoni 231).

Conversely, beyond the borders of the United States and the United Kingdom, large corporations are typically under the control of one or more major shareholders who may maintain additional contractual connections with the organisation. Consequently, their objectives may substantially deviate from those of minority shareholders. For example, a holding company may prioritise the enhancement of the overall value of the corporate group, even if it involves sacrificing the subsidiary's value. In such scenarios, the examination of ownership structure and its implications for firm performance becomes notably more intricate and convoluted (Zattoni 232). Some of the key aspects of agency theory are the reduction of agency costs, streamlining the incentives of managers and other stakeholders and minimising the self-interested behaviour often criticised in managers (Shapiro 269). As Shapiro (2005, 270) argues, agency theory branches out to corporate governance as it addresses:

> "the monitoring role of the board of directors and trade-offs between recruiting inside or outside directors or between separating the roles of board chair and CEO versus filling them with one individual; monitoring strategies within the firm [e.g., trade-offs between horizontal (peer-to-peer) and vertical (agent-to-principal) control];bonding mechanisms; and the agency implications of different forms of capitalization (e.g., paying out dividends and thereby limiting discretionary funds available to managers while also activating the monitoring role of the financial markets."

Another significant body of academic research explores the challenges related to agency problems, agency costs, effectiveness, and the trade-offs associated with various control mechanisms. These issues are examined in the context of different factors, including the duration of the principal-agent relationship, the organisational structure and configuration, common characteristics of industries, organisations, and employees, the programmability of tasks, which refers to how precisely the required behaviours can be defined and the organisational environments, which can encompass factors like turbulence and external dynamics (Shapiro 270).

Agency theory is also a part of the political world as the delegation of power and authority are an integral part in politics and the government. Further, the political system can be perceived as a more complex network of principal-agent relationships, involving citizens, states, or politicians for instance. In other words, agency theory can be summarised of acting through another person in place of oneself (ibid. 271). It can thus be said that agency theory outlines the legal responsibilities of principals concerning actions undertaken by their agents on their behalf. In specific instances, the principal may be obligated to honour contracts and transactions entered into by the agent and could potentially be held accountable for certain instances of the agent's wrongdoing through vicarious liability (DeMott 1038). Given that principals can be held accountable for their agents' actions, the legal framework also addresses the origins of agent authority. It distinctly defines what establishes an agency relationship, outlines the authority of principals to manage their agents, and delineates the fiduciary duty and additional responsibilities that agents owe to their principals (Clark 58).

The legal definition of agency does not encompass relationships like that between a corporation's shareholders and its directors, even though these relationships are pivotal in economic agency theory. In the realm of agency law, principal control assumes paramount significance due to its focus on safeguarding the interests of third parties. The concern is that when third parties engage in agreements with agents or suffer harm due to agents' actions, the principals may be legally bound or held accountable (Shapiro 273). However, it is important to acknowledge that control itself is a complex issue that the social sciences find challenging to define. Consequently, attempting to categorise it solely based on a point along a continuum where control is absolute is insufficient. Additionally, the questions central to the social sciences, such as the nature of the contract between principal and agent, the mechanisms through which principals exert control over agents, and strategies to mitigate agency costs, tend to be of secondary importance within the scope of agency law (ibid. 273). Agency theory also entails a goal conflict, as the classical agency paradigm, which primarily focuses on the principal, assumes that the interests of agents are deviating from the principal's interests. Consequently, the solution to this agency challenge lies in devising incentives that can align agents' interests with those of the principal, such as using a piece-rate payment system to discourage shirking. Though, when viewed from the agent's perspective, the agency problem takes on a distinctly different complexion. For the agent, conflicts between their interests and those of the principal are often the least of their concerns. The primary issue stems from the fact that agents are frequently accountable to multiple authorities, many of whom hold conflicting interests. Even if the agent can set aside their personal interests, they must grapple with navigating the intricate web of loyalties owed to numerous principals and the complexities of negotiating through their conflicting and sometimes irreconcilable interests (Shapiro 278).

Some other important aspects within agency theory encompass the monitoring of agents and so-called agency costs. To begin with, as research done by Stinchcombe (1963) indicates, due to the presence of information and knowledge imbalances, often involving disparities in know-what and know-how, within many agency relationships, and considering that agency relationships tend to be notably obscure, partly due to privacy safeguards, and relatively resistant to external oversight, self-regulation takes on a critical function by utilising internal information and expertise for monitoring purposes. Second, agency costs stem from a multitude of origins, including expenses associated with recruitment, adverse selection, articulating and discerning preferences, creating incentives, addressing moral hazard, instances of shirking, misappropriation, self-dealing, corruption, monitoring, and enforcement, as well as the intricacies of self-regulation, bonding, and insurance. These costs are further exacerbated when agents oversee other agents who, in turn, oversee additional agents, and when the mechanisms designed to rectify agency problems fail (Clark 97). This is primarily because principals lack the ability to directly observe agent behaviour, leading them to rely on imperfect surrogate measures. Consequently, agents may shift their focus toward these surrogates to create the appearance of compliance, even if it means diverting their efforts away from the intended objectives. For instance, in cases where student test scores are employed as a measure to monitor teachers, some teacher-agents may prioritise coaching students on test-taking strategies over imparting substantive knowledge or fostering critical thinking skills. As a result, agency costs escalate due to the misallocation of agent efforts (ibid. 97). Agency costs also experience upward pressure due to the way organisations are configured to mitigate opportunistic behaviours. This involves the establishment of mechanisms like checks and balances, the introduction of reporting requirements, the incorporation of redundancies, the practice of employee rotations, the fragmentation of responsibilities, the addition of supervisory layers, and the implementation of measures to prevent conflicts of interest. Furthermore, costs rise because principals, driven by concerns about potential abuse, impose a range of procedures, decision-making rules, protocols, or standardised procedures to curtail agent discretion. In an ironic twist, principals who engage agents due to their own lack of expertise in decision-making often instruct their agents on how to execute decisions on their behalf, effectively limiting their autonomy (Shapiro 281).

As a result of the division between ownership and control, contemporary corporations entrust authority to professional managers, typically referred to as executives, who are responsible for managing the affairs and safeguarding the interests of widely scattered shareholders. According to agency theorists, it is posited that these managers might be motivated by their own self-interest. Unless there are constraints preventing them from doing so, they may engage in actions that serve their personal interests, potentially harming the economic well-being of the principal, thus giving rise to an agency problem (Rashid 181).

Several control mechanisms are proposed as part of a system of checks and balances aimed at mitigating the agency conflict between principals and agents while effectively pursuing the firm's objectives. These mechanisms encompass both external and internal control mechanisms. External control mechanisms include the market for corporate control, characterised by takeovers and acquisitions, whereas internal control mechanisms involve factors like the presence of significant shareholders, as discussed in Demsetz and Lehn (1985), board oversight, as mentioned by Zahra and Pearce in (1989), and contractual arrangements, as explored by scholars such as Godfrey et al.in 2006.

Among these control mechanisms, the corporate board emerges as the foremost and primary internal governance mechanism capable of overseeing management's actions to advance shareholders' interests. It is important to note, however, that the board of directors is just one of multiple institutional measures devised for controlling agency costs, as pointed out by Baysinger and Butler (120).The board assumes the roles of monitoring management, providing strategic guidance, and even reviewing and ratifying management's proposals, as indicated by Jonsson’s study in 2005. Due to its legally mandated responsibilities, the board is well-positioned to identify issues at an early stage and, when necessary, to act as a whistle-blower. A potential issue often pointed out in literature discussing agency theory is the extent to which members of a corporate board can control the management of a firm (Rashid 181). This debate gained momentum in the 2000s as numerous high-profile firms collapsed, such as Enron or WorldCom. It is sometimes argued that these corporate failures might be rooted in poor supervision or insufficient monitoring, as board members were claimed to not be independent (ibid. 182).

The concept of board independence primarily stems from the conventional context of the agency problem within the Anglo-American framework. In this context, ownership is widely dispersed, and managers and directors serve as agents for shareholders, with their primary objective being the maximisation of shareholder wealth, i.e., maximising shareholder returns. This focus on shareholder wealth maximisation is driven by the fundamental conditions of the agency problem in this traditional setting. In such a context, a significant dispersion of shareholdings results in a substantial separation of ownership and control. Consequently, shareholders possess limited influence over management, rendering effective monitoring by shareholders unfeasible. Moreover, it becomes exceedingly challenging for shareholders to remove management or act upon the threat of such removal, as for instance elucidated by Brigham and Gapenski (1993). The combination of robust management control and the wide distribution of share ownership gives rise to a substantial information asymmetry between shareholders and management, becoming a significant source of agency conflict . As the Anglo-Saxon model mainly consists of one-tier boards, it was a popular strategy to create an outsider-dominated board (Rashid 182).

Regarding the relationship between board independence and firm performance, the existing body of literature presents a mixture of findings. Some studies have highlighted a positive impact of an independent board on company performance. Drawing insights from numerous investigations, e.g. Ezzamel and Watson (1993), a positive correlation between board independence and a company's performance has been presumed. Conversely, other sources have reported a negative influence of an independent board on the financial performance of companies. This perspective is evident in studies conducted in the United States, including Bhagat and Black (2002), or Hermalin and Weisbach (2003). The existing literature, therefore, provides a diverse range of perspectives on the relationship between board independence and firm performance.

While many management researchers have expressed considerable optimism about the applicability and validity of agency theory, suggesting that instances of agency are widespread, as noted by Ross in 1973, it is essential to acknowledge that some other scholars in the field hold a contrasting view. It is argued that agency theory falls short in effectively addressing well-defined problems, as highlighted by Perrow ‘s (1986) study, and that it is overly restrictive in its scope, as observed by Hirsch and Friedman (1986).
The doubts surrounding the credibility of agency theory have prompted the emergence of alternative theories, notably stewardship theory and resource dependence theory. However, even in the face of this scepticism, agency theory still holds a significant position in assessing the congruence of shareholder interests. If management researchers were to entirely discard agency theory, they might overlook a valuable opportunity to enhance the alignment of shareholder interests (Rashid 182-183).

2.2.2. Stewardship Theory

The next theory that will be discussed in more detail is stewardship theory, which is rooted in psychology as well as sociology. According to this theory the so-called steward is dedicated to protect and maximise the wealth of shareholders. The theory suggests that this objective is achieved through company performance, as the optimisation of company performance results in the maximisation of the steward’s utility function (Abdullah & Valentine 90). From this viewpoint, stewards are the company's main executives and managers who serve the interests of shareholders by safeguarding their investments and generating profits. In contrast to agency theory, which emphasises individualistic perspectives, stewardship theory places importance on top management's role as stewards who align their objectives with those of the organisation. The stewardship perspective proposes that stewards find fulfilment and motivation in achieving organisational success (Abdullah & Valentine 90). Research by Agyris (1973) contends that agency theory views employees or individuals primarily as economic entities, which can stifle an individual’s personal ambitions. In contrast, stewardship theory acknowledges the significance of empowering stewards and providing them with a high degree of autonomy based on trust (Abdullah & Valentine 90). Stewardship theory emphasises the capacity of employees or executives to act with greater independence in order to maximise returns for shareholders. This approach has the potential to reduce the expenses associated with monitoring and regulating behaviours (Davis, Schoorman, & Donaldson 25). Conversely, according to Daily, Dalton, and Cannella (373), executives and directors tend to steer their organisations towards maximising financial performance and shareholder profits in order to safeguard their own standing as decision-makers within the company. This suggests that the company's performance can directly influence how their individual performance is perceived. Furthermore, Fama (306) suggests that executives and directors are also strategically managing their careers to be seen as effective stewards of their organisations, while other studies, such as one conducted by Shleifer and Vishny (1996), assert that managers return capital to investors to establish a favourable reputation, enabling them to access financing in the future. Furthermore, in accordance with stewardship theory, it is proposed that the roles of the CEO and the chairman should be integrated to minimise agency costs and enhance their role as stewards within the organisation. This integration is believed to provide better protection for the shareholders' interests. Empirical evidence suggests that combining these roles, as opposed to keeping them separate, has led to improved returns (Abdullah & Valentine 90).

2.2.3. Stakeholder Theory

The third theory that will be investigated in this paper is stakeholder theory, which includes aspects taken from philosophy, ethics, economics, law and organisational science . Stakeholder theory became part of the management field in the 1970s and evolved over time under the influence of Freeman (2010), who expanded it to encompass corporate responsibility to a wide array of stakeholders. Stakeholder theory can be described as the concept that incorporates any group or individual capable of influencing or being influenced by the organisation's goals (Abdullah & Valentine 91). Further, it can be said that stakeholder theory addresses the individuals and groups for whom value is being generated (Freudenreich, Lüdeke-Freund, & Schaltegger 4). In contrast to agency theory, which posits that managers primarily serve the interests of stakeholders, proponents of stakeholder theory argue that managers in organisations have a web of relationships to attend to, including suppliers, employees, and business partners. It has been contended that this network of relationships is crucial, in contrast to the owner-manager-employee relationship emphasised in agency theory (Abdullah & Valentine 91). Based on Freeman’s (2015) extensive work on this theory it can be argued that stakeholder theory places significant emphasis on the network of relationships involving various groups, recognising its impact on decision-making processes. This theory is concerned with both the processes and the results of these relationships for the organisation and its stakeholders. In a similar vein, research conducted by Donaldson and Preston (1995) asserts that stakeholder theory centres on managerial decision-making and assigns intrinsic value to the interests of all stakeholders, without assuming any one set of interests dominates the others. Stakeholder theory revolves around determining who has a say in decision-making processes and identifying those who reap the benefits of such decisions (Phillips, Freeman, & Wicks 487). In the literature, stakeholder theory is presented as a comprehensive and diverse approach, generally embodying the notion that the firm's purpose is to act as a mechanism for coordinating stakeholder interests. These interests are acknowledged to be diverse, and not always entirely overlapping (Crane & Ruebottom 78).

In stakeholder theory, a company is defined by its relationships with individuals or groups that impact or are impacted by its business operations. These various stakeholders contribute resources, influence the business environment, derive benefits from the company, and affect both its efficiency and impacts. The collaborative efforts of the stakeholder network are central to value creation, and any withdrawal of support from a stakeholder can jeopardise a business' viability. This perspective highlights the significance of relationships as the foundation for a functioning value creation network, emphasising that a business model cannot operate successfully without robust connections with internal and external stakeholders. Businesses are established with specific purposes that serve as the foundation for stakeholders to engage or refrain from entering into relationships with them. In a relational perspective, stakeholders have diverse motivations to participate in relationships with a focal business and its processes of value creation and exchange. According to stakeholder theory, a shared purpose should arise from the mutual values of a company and its stakeholders, acting as a powerful and motivating reference point for collaborative value creation (Freudenreich, Lüdeke-Freund, & Schaltegger 5).

Stakeholder theory serves as a valuable foundation for incorporating stakeholders into managerial decision-making processes, providing both normative and instrumental perspectives. It enhances the comprehension of relational aspects of a firm and establishes a framework for identifying pertinent constituencies, along with various logics for prioritising and integrating their interests into decision-making processes. Despite its contributions, the theory faces challenges in effectively identifying stakeholder groups, leading to vague and superficial definitions. Over the past two decades, stakeholder thinking has been integrated into multiple disciplines, yet stakeholders are often narrowly defined by their generic economic roles, such as consumers, investors, or employees. This approach overlooks the social bonds that form the basis for claims made by groups with diverse demographic, cultural, political, and societal affiliations. When groups like women, seniors, blind people, children, or the LGBT community make claims on a firm, it goes beyond being mere market segments or labour market minorities. Instead, they represent unique societal constituencies influencing and being influenced by the firm across various market relationships. To comprehensively understand societal values, predict social issues, manage stakeholder relationships, and assess impacts on constituencies, firms must delve into the sophisticated identifications that drive constituency membership. Viewing firms not only as economic actors but also as social and political institutions necessitates considering stakeholders in terms of their social identities, encompassing different interests, ideologies, values, and expectations related to the firm (Crane & Ruebottom 77-78).

Stakeholder groups have been categorised in various ways within stakeholder theory, such as primary/secondary, actual/potential, internal/external, fiduciary/non-fiduciary stakeholders , necessary/contingent and compatible/incompatible, or positioned on a continuum of power, legitimacy, and urgency (Crane & Ruebottom 79). In stakeholder theory, various streams of work focus on different aspects of stakeholder management, influencing how stakeholders are identified. Donaldson and Preston (1995) categorise these approaches based on descriptive accuracy, instrumental power, and normative validity. The instrumental stakeholder theory, which adopts an economic model, highlights only the so-called primary stakeholder groups with a direct economic connection to the firm. This perspective argues that firms benefit from stakeholder management through trusting relationships, risk reduction, reputation, or other material gains, emphasising contractual ties and limiting consideration of broader stakeholder interests. Contrastingly, the normative approach challenges the instrumental view and emphasises that stakeholders are an end in themselves, based on Kantian principles. While some argue for moral responsibility to a broader range of stakeholders, the classification of stakeholders tends to remain focused on the same economic relationship with the firm, with a secondary group classified in more generic terms (Crane & Ruebottom 79).

The primary stakeholders are typically identified based on their economic relationship with the firm, while a secondary group is broadly categorised as community or activist groups, with specific identification often lacking. Descriptive stakeholder theory does not prescribe a specific approach to identifying stakeholders but rather focuses on how stakeholders are practically managed, as indicated in a study by Clarkson (1995). In company mission statements, stakeholders, particularly employees, customers, and society, are frequently mentioned in connection with stakeholder management. The secondary, non-economic stakeholders included in firms' stakeholder management are often labelled as society, NGOs, and/or government, usually in response to emerging issues and claims (Crane & Ruebottom 79). However, identifying these secondary stakeholders proactively in stakeholder analysis proves challenging and offers little guidance. Efforts to integrate perspectives, like Mitchell, Agle, and Wood's (1997) concept of stakeholder salience, often lean towards a firm-centric view of stakeholder identity and legitimacy. Even when aiming to balance normative (legitimacy) and instrumental (power) arguments, these approaches prioritise the economic relationship's significance to the firm. It can be argued that, power, defined as the ability to impact the firm's survival, holds the greatest importance in ranking stakeholder priority. The economic relationship's primacy and the secondary classification of stakeholders with non-economic claims persist in work attempting to integrate and balance diverse perspectives on stakeholder importance, reinforcing traditional stakeholder theories and their inherent value judgments. These theories undeniably uphold and solidify the classification of stakeholders based on their economic relevance to the firm (Crane & Ruebottom 79).

Over time, the standard representation of stakeholder categories, originally intended as a basic map without prescriptive intent in its classification and implied priority relationships, has evolved into the norm. In both research and practice, stakeholders are typically categorised as owners/financiers/stockholders, customers, employees, suppliers, and competitors – primary groups identified by their economic ties to the company. Secondary groups like community and advocates are added depending on the company's prevailing circumstances. Community is often considered a catch-all for interests not falling into primary stakeholder concerns. Some companies may go a step further by placing customers at the centre of the map to understand the world from their perspective, but the relationship classification remains economic and contractual (Crane & Ruebottom 80).

Recent variations of stakeholder theory attempt to move beyond perceiving the firm as a separate entity with its own goals, distinct from stakeholders' goals. Some authors, such as Fassin (2008), find the placement of the firm at the model's centre problematic. Efforts have been made to de-centre the firm, situating it within a network of relationships.
Moral imagination can shift the focus to disadvantaged workers or other stakeholders, emphasising a complex system of relationships that cannot be reduced to individual

components. While past work emphasised interacting with communities, there is now a shift towards cooperation and collaboration within communities, challenging the firm-society separation. While network thinking shifts away from a firm-centred approach, the new stakeholder map tends to be either generic in stakeholder identification or issue-centred, portraying business as an actor within a multi-stakeholder network (Crane & Ruebottom 80).

In short, stakeholder theory addresses corporate responsibility to diverse stakeholders. It defines a company by its relationships, highlighting their impact on value creation and organisational viability. Stakeholder theory emphasises a network of relationships, challenging agency theory's narrow focus on the owner-manager-employee relationship. While influential in managerial decision-making, stakeholder theory faces challenges in identifying and prioritising stakeholders, often resulting in vague definitions. Recent variations aim to de-centre the firm, emphasising cooperation within communities. Despite challenges, stakeholder theory remains crucial in understanding and managing complex relationships within and beyond the firm.

2.2.4. Resource Dependency Theory

The last theory to be analysed in this chapter is resource dependency theory, a theory that focalises the role of the board of directors in providing access to resources needed by the firm (Abdullah & Valentine 92). Directors fulfil this requirement by making use of their networks related to the external environment. Resource dependency theorists emphasise the importance of engaging representatives from external organisations as a strategy to access vital resources necessary for a firm's success. An illustrative example of this concept involves external directors who are affiliated with a law firm. These directors can offer legal counsel either during board meetings or through private communication with the firm's executives, potentially saving the company the expenses associated with obtaining such services through other means (Abdulla & Valentine 92). Directors can be categorised into four distinct groups; insiders, business experts, support specialists, and community influencers. Insiders comprise current and former company executives, offering their specialised knowledge, including finance and legal expertise, not only about the firm itself but also regarding broader strategic directions. Business experts, on the other hand, encompass current and former senior executives and directors from other sizable for-profit organisations, contributing insights into business strategy, decision-making processes, and problem-solving techniques. Support specialists, such as lawyers, bankers, insurance representatives, and public relations experts, lend their expertise in their respective specialised domains. Lastly, community influencers encompass political leaders, university faculty members, clergy, and leaders of social or community organisations who can offer valuable perspectives and connections within their respective spheres (Abdullah & Valentine 92).

2.3. Internal Mechanisms of Corporate Governance

Internal mechanisms are an integral part of corporate governance and the literature around it. This chapter explores three fundamental pillars of internal corporate governance; ownership structure, board composition, and CEO remuneration. These elements collectively constitute the organisational infrastructure that shapes decision-making processes, ensures accountability, and aligns the interests of key stakeholders within a corporation. The examination of ownership patterns, the constitution of boards of directors, and the determinants of executive compensation offers invaluable insights into how organisations are structured, managed, and governed.

As previously mentioned, corporate governance involves the implementation of mechanisms that align the interests of corporations with those of their shareholders, encompassing various stakeholders such as employees, creditors, investors, customers, suppliers, and the broader public (Urban 1). In the absence of effective governance mechanisms, the principal-agent problem may emerge, allowing managements, agents, to behave opportunistically, which can be detrimental to the owners of the enterprise, its stakeholders, and the overall economy (Zattoni 98).

Typically, issues related to corporate governance have both, vertical and horizontal aspects. In corporations characterised by widely dispersed ownership of shares, the vertical dimension of the problem assumes particular significance. This issue manifests itself in the relationship between senior managers and shareholders, with a primary emphasis on fostering loyalty from senior management to shareholders and ensuring their competence aligns with the firm's management objectives. The corporate governance issue's horizontal dimension emerges in the interactions between dominant and dispersed shareholders. Its primary concern is averting the transfer of value from dispersed to dominant or controlling shareholders. Both dimensions of the corporate governance problem exhibit a common trait: in both cases, the controlling agent has the potential to extract some sort of rent or private benefits, often at the expense of other shareholders. However, the methods through which this extraction occurs differ, as do the mechanisms designed to mitigate the extent of the problem (Urban 2).

The challenge of aligning shareholder-manager interests can manifest in two primary ways, often distinguished by their level of visibility or transparency. The first pertains to the potential misdirection of the firm's assets, where managers might divert value from the company in less transparent ways – such as selling goods at low prices or engaging in transactions with entities they control – or more visibly, such as through excessively high salaries. The second manifestation, incompetence, revolves around the capability of managers to effectively oversee the firm. This could result from errors in their selection, which may become apparent only over time, or changes in circumstances that render the manager unsuitable for the position (ibid. 2).

2.3.1. Ownership Structure

The corporate governance of a company is significantly influenced by the configuration of its ownership structure. This structure dictates which entities possess control or voting rights, enabling them to nominate their representatives on the board of directors. Additionally, it specifies those entitled to residual income or cash-flow rights. The authority to influence critical corporate decisions, such as the appointment of board members, is contingent on the concentration or dispersion of shareholdings. In instances where there are controlling shareholders or a coalition thereof, they typically wield their voting rights and play a pivotal role in decision-making. Conversely, in an ownership structure characterised by widespread fragmentation, shareholders are often more passive, resulting in decision-making authority shifting to top managers (Zattoni 229).

The degree of ownership concentration is a crucial determinant of the type of agency problem affecting the firm. In widely held Anglo-American companies, the prevalent agency problem is of the principal-agent, whereas in large companies with controlling shareholders, the principal-principal agency problem is more prevalent. The identification of shareholders becomes particularly significant in the presence of substantial or controlling shareholders, who possess the capability to actively employ their voting or control rights to shape board composition and influence the decision-making processes of the company (Aguilera & Crespi-Cladera 52). Controlling shareholders may, in certain instances, prioritise their interests to the detriment of the firm or other stakeholders' interests.

Control Enhancing Mechanisms (CEMs) constitute a pivotal aspect of ownership structure, as they have the potential to amplify the influence of substantial or controlling shareholders in critical corporate decisions. Typically employed by these shareholders, CEMs serve to strengthen their voting power without necessitating an increase in their investment in share capital (Zattoni 229).
Consequently, CEMs introduce a disconnect between voting rights and cash flow rights, resulting in a separation between ownership and control. This disjunction, in turn, contributes to heightened agency costs. The disparity between voting rights and cash flow rights can produce both favourable outcomes, such as enhanced control stability, and adverse consequences, potentially encouraging controlling shareholders to exploit minority shareholders and other stakeholders (ibid. 229). The disconnection between ownership and control arises in situations where the ownership structure of the firm is highly fragmented, and shareholders refrain from exercising their control or voting rights due to collective action problems. In such instances, shareholders retain their cash-flow rights while delegating control to top managers, who wield significant influence over crucial decisions. This segregation of residual control rights and residual income rights can adversely impact business efficiency, as it provides an avenue for top managers and the board under their sway, to make decisions aimed at advancing their personal benefits of control. In essence, under these conditions, top managers may pursue their interests at the expense of shareholders' interests (Aguilera & Crespi-Cladera 53).

Three likely ownership scenarios can be illustrated as follows. An entrepreneur possesses all shares of a firm and directly manages the company, resulting in a complete overlap of ownership and control. In an alternative scenario, the entrepreneur still holds the majority of shares but has sold a portion to investors. Despite this, the entrepreneur retains managerial control. This scenario is frequently encountered in both private and publicly listed enterprises where one or several dominant shareholders exert influence over the company's decisions, impacting board composition. In the third scenario, the entrepreneur retains little to no shares, leading to a situation where control becomes easily contestable. The share capital is dispersed among numerous small shareholders, none of whom hold sufficient shares to exert dominant influence. This configuration is often observed in large widely held companies where control rights are exercised by professional managers (Zattoni 230).

Certainly, these three instances do not cover the entire spectrum of potential scenarios. Ownership concentration exists on a continuum, stretching from a sole shareholder possessing 100 percent of the share capital to multiple shareholders holding smaller portions. Between these extremes, diverse configurations emerge, including joint ventures mutually overseen by several companies, family firms where different family members own shares, cooperatives with ownership distributed among multiple partners adhering to a one head, one vote principle, and various other possibilities (ibid. 231). As per agency theory, the degree of ownership concentration significantly influences value creation within a company. According to this perspective, maximum value is realised when the entrepreneur has complete control over the firm, as their interests are aligned with those of the company. In the next tier are companies controlled by significant shareholders who possess some incentives to enhance shareholder value. On the opposite end of the spectrum, widely held companies enable top managers to prioritise their personal benefits of control over the interests of the company and its stakeholders (Jensen & Meckling 286).

In addition to ownership concentration, there exist various types of company owners. Broadly, company ownership can be classified into family ownership, state ownership, bank ownership, ownership by industrial companies, and ownership by institutional investors. Each ownership type is typically associated with specific characteristics (Thomsen & Pedersen 692). Family ownership is prevalent globally, with approximately two-thirds of the world's enterprises being in the hands of families. Within family firms, there are two main types: those where control is firmly held by a single entrepreneur and those where control is distributed among various members or branches of the same family. Typically, family firms are entirely owned by one or a few family members, although on occasion, other shareholders may also be part of the ownership structure (Maury 322).

About twenty percent of the world’s companies, both private and public, are owned by the state or local governments. The second common type of ownership is thus a state-owned company. The involvement of the State and local governments in the economic system shows notable differences among nations. It is restricted in the Anglo-American system, while being more significant in the governance models of Germany, Japan, or Latin countries. The privatisation initiatives that commenced in the 1990s in various continental European nations have considerably diminished the State's significance in their economies. Nonetheless, enterprises under State or local government control continue to hold a significant position in numerous industrialised countries, particularly in strategic sectors like public utilities, defence, infrastructure, and transportation (Zattoni 234).

Further, companies may also be owned by banks. This type of ownership is illegal in the US, but common in other countries. Banks play a crucial role as shareholders in industrial firms within some countries, such as Germany. Here, financial regulations permit universal or mixed banks to hold shares and offer financial advisory services to industrial companies. In contrast, the significance of banks as shareholders is minimal in the Anglo-American governance model. This is due to legal and customary distinctions that segregate commercial banks from investment banks, thereby preventing commercial banks from becoming substantial shareholders in industrial firms. Commercial banks establish long-term financial and advisory connections with major companies, but their governance influence markedly rises only when national laws permit them to possess substantial shareholdings in industrial enterprise (Thomsen & Pedersen 693).

Finally, companies are sometimes in the hands of institutional investors or industrial companies. Institutional investors serve as effective overseers of senior executives and actively support the creation of shareholder value. These investors, assisted by specialised consultants known as proxy advisors, scrutinise the corporate governance, strategy, and performance of companies they invest in. The objective is to detect potential issues and suggest measures to resolve them. Institutional investors are inherently motivated to enhance shareholder value, as their own performance is intricately tied to that of the companies they invest in, gauged by financial value creation. Some industrial companies are under the control of one or more other companies. These groups can take the form of vertical entities, encompassing companies throughout the value system from raw materials to final products, or horizontal entities, involving companies – sometimes including banking, insurance, and trading companies – operating in related or unrelated industries. The impact of business groups on firm performance can be either positive or negative. Positive effects include the establishment of efficient internal markets for the exchange and sharing of labour, capital, and intermediate goods or services. Additionally, there's the facilitation of formal and informal information exchange among group companies, aiming to reduce uncertainty, ensure contract enforcement, and capitalise on new business opportunities. Business groups also play a role in coordinating political lobbying efforts and sharing contacts among their constituent companies. On the flip side, negative effects may manifest in the strengthening of large shareholders' control over firm assets through a vertical chain of companies, known as the stock pyramiding effect. Another detrimental aspect is the potential for transferring assets or profits among affiliated companies through related party transactions, commonly referred to as tunnelling (Zattoni 237-238).

2.3.2. Board Structure

Another aspect related to corporate governance is the structure of a firm's boards. It can be said that the board of directors is a crucial corporate governance mechanism. However, it has to be taken into account that the collaboration between different members is to an extent regulated by the legal framework a company is operating in (Campbell & Mínguez-Vera 436). In the scope of this thesis, it will be analysed if and how board diversity, i.e. diversity in members' age, gender, background and their degree of involvement in the company, influences the popularity of a company as a potential employer.

To start, it has to be stated that research in this particular field has not been conducted excessively. However, some studies, as one conducted by Shrader, Blackburn, and Iles (1997), have investigated the relation of board diversity, focussing on gender diversity, and the performance of a firm. This study, for instance, did not find any significant correlation, negative or positive, between the amount of men and women on a board and a company's performance. However, as the participation of women on a board was analysed, a slightly negative impact regarding the firm's financial performance was perceived. This was found by measuring different types of account data, such as the return on investment (ROI) or the return on sales (ROS). As the study was reviewed by the scholars who conducted it, it was mentioned that the low amount of female board members might have a negative impact on the validity of the study's results (Shrader, Blackburn, & Iles 109).

Comparing the aforementioned results to a more recent study, carried out by Carter, Simkins, and Simpson in 2003 a positive link between the gender diversity within a firm's board and its performance was found. As summarised by Francoeur, Labelle, and Sinclair-Desgagné (2008, 86) the study used a sample of 638 firms and the results demonstrate that "a higher percentage of women and minorities on the board of directors can increase firm value". However, according to Francoeur, Labelle and Sinclair-Desgagné, the results of the study are not sufficient to clearly indicate the impact gender diversity in a board may have on a company's performance (86).

A study conducted by Adams and Ferreira in 2004 discovered that the board of directors in the investigated companies was more homogenous when the respective firm operates in a risky environment. Contrastingly, the results of this study have also shown that a more diverse board might contribute to higher effectiveness, as board meetings are more frequent and especially female board members show a high attendance score (Adams & Ferreira 28).

In 2004 another study was carried out, by the well-known research company Catalyst, analysing the board composition of more than 300 Fortune 500 firms, with the sample reaching from 1996 to 2000. The results indicated that higher board diversity is linked to better financial performance in a company than a more homogenous board. The indicators that were analysed to determine the influence of board diversity on a company's performance were the return on equity (ROE) and raw stock returns (Francoeur, Labelle & Sinclair-Desgagné 86).

As the research conducted by Campbell and Minguez-Vera (438), the number of female board members has increased approximately 3% between the years of 2001 and 2007, but is still relatively low, especially if compared the amount of women on US companies' boards. Their research has further shown that Sweden has the highest number of female board members with 21%, followed by the UK with 15.2% (ibid. 438).

To sum up, diversity in a company's board is likely to have a positive impact on company performance, however, the evidence is not entirely conclusive and more research is needed in order to come to a definite conclusion (Campbell & Mínguez-Vera 441).

2.3.3. CEO Renumeration

The chief executive officer, henceforth CEO, is an integral part of every business and has significant impact on the development and success of a company. The payment structure of executives is a well-researched topic, as it is one of the many mechanisms of corporate governance. Studies, such as one conducted by Core, Holthausen, and Larcker (1999) point towards CEOs receiving higher compensation in companies where governance structures show lower effectiveness. The levels of executive compensation have surged, reaching a point where the ratio of CEO pay to average employee wages in major firms escalated from 44:1 in 1965 to 301:1 in 2003 in the US (Petra & Dorata 141). The main part of the CEO renumeration usually consists of performance-based incentives, as for example stock options or other equity-based enticements. When offering this type of renumeration to executives, it might redirect a CEOs' attention from overseeing their company's profitability to focusing on their company's stock price. Such a change in focus might not be beneficial to a company’s long-term plans on value maximisation, which also leads to a less advantageous situation for its shareholders (Petra & Dorata 142).

As previously indicated, numerous firms are characterised by the separation of ownership and control. According to agency theory, separating ownership and control creates agency costs, assuming both parties aim to maximise utility. Further, agency theory suggests that the connection between CEO compensation and performance is essential to address moral hazard issues arising from information asymmetry between owners and managers. Shareholders face challenges in fully observing the actions of CEOs or doing so at a considerable cost (Conyon & He 576). To mitigate these costs, many firms link management compensation to firm performance. Shareholders utilise performance metrics like net income and market valuation to assess management effort and adjust compensation accordingly. Increased (decreased) firm performance results in increased (decreased) compensation, aiming to align management's interests with shareholders. However, notable cases like Enron Corp., WorldCom, Inc., Global Crossing, Inc., and others reveal instances where top management, including CEOs, received substantial compensation despite their companies' failures. This highlights a significant gap or potential disconnect between executive compensation and firm performance (Petra & Dorata 142). Many companies aim to recruit, motivate, reward, and retain CEOs who contribute to long-term investor value. CEO compensation packages are crafted with elements that align with the CEO's expectations while simultaneously providing incentives to meet shareholders' expectations (ibid. 143). Mehran and Carroll’s (1995) research suggests that the form, rather than the level, of compensation is a motivating factor for managers in enhancing firm value. Pay-for-performance packages have evolved from the belief that how CEOs are compensated directly influences firm performance. While this belief may be subject to debate, it is evident that variable pay, such as pay-for-performance, often serves as a potent motivator for beneficial behaviour (Petra & Dorata 143). CEOs wield varying levels of influence over the board, and evidence suggests that their compensation tends to rise with an increase in this influence. Many firms adopt a structure where the CEO also assumes the role of the chairperson of the board. This dual position empowers the CEO to not only manage the day-to-day operations but also shape the future direction of the company. As the chairperson, the CEO takes charge of board meetings, sets agendas, and oversees critical processes like hiring, laying off, and compensating top management (ibid. 143). Research by Core, Holthausen, and Larcker further (1999) highlights that CEO compensation tends to be higher when the CEO serves as the board chair.

Moreover, beyond CEO duality, the CEO's influence over the board grows with an expanding board size. Larger boards may require more members to unite as a majority to challenge the CEO, providing the CEO with increased influence. Core, Holthausen, and Larcker (1999) additionally note that CEO compensation tends to be higher when the board size is larger. Moreover, research conducted by Yermack (1996) reveals that as board size increases, the sensitivity of pay-for-performance decreases.

Agency theory posits that executive compensation decisions hinge on a static, explicit pay-for-performance contract, where CEO pay reaches equilibrium in each period. However, a study by Holmström (1999) suggests that the implicit wage structure is as crucial as explicit incentive schemes for disciplining managerial behaviour. In labour economics research, a prevailing trend underscores the significance of learning in influencing wage dynamics within a firm, as researched by Farber and Gibbons (1996) or Gibbons and Waldman (1999). Specifically, when an employee enters the labour market, the employer can only partially observe the employee's ability. Factors like education, experience, and other characteristics signal the worker's initial quality, yet this information remains incomplete (Conyon & He 578). Consequently, employers rely on their expectations of the employee's performance to determine the initial wage, gradually learning about the employee's capabilities through subsequent observations of real outputs (ibid. 578).

As explored in the previous part of this chapter, equity-based compensation is one part of CEO renumeration. Further, the typical CEO compensation package consists of a salary, bonus payments, e.g. a yearly bonus, payments coming from long-term plans and the aforementioned equity- and stock-based options. Additionally, executives may also receive other forms of payment, such as perquisites, pensions or severance pay (Frydman et al. 8).

In short, it can be said that both the magnitude and structure of CEO compensation have undergone significant transformations over time. From the mid-1970s to the late 1990s, all facets of compensation experienced substantial growth, with pronounced variations in pay across executives and firms. Notably, stock options saw a remarkable surge, emerging as the predominant component of CEO pay in the 1990s. Subsequently, average CEO pay witnessed a decline from 2000 to 2008, and restricted stock grants supplanted stock options as the prevailing form of equity compensation. It remains a subject of debate whether the post-2001 period represents a distinct third regime in CEO compensation or merely a transient anomaly attributed to the technology downturn of 2000-2001 and the financial crisis of 2008 (Frydman et al. 8-9).

2.4. External Mechanisms of Corporate Governance

The following chapter examines the external mechanisms of corporate governance. External corporate governance mechanisms can be regarded as regulating a company in order to establish its credibility within society. There are six primary external factors of governance - the legal system, market control, external auditors, stakeholder activists, rating organisations, and the media (Aguilera et al. 496).

Corporate governance extends beyond internal structures and relationships among owners and managers, taking on an external dimension. This dimension, not confined to horizontal or vertical dynamics, revolves around governing the firm in a manner that aligns with societal expectations and legitimacy. The legitimacy dimension is largely influenced by external stakeholders, with society requiring firms to structure their governing institutions in a way that reflects public policy goals. However, the concept of legitimacy in corporate governance can be broadened to encompass various aspects. For instance, one may consider corporate governance issues from an organisational perspective, focusing on how to motivate and maintain a flexible yet effective team (Urban 6).

The prominence of this dimension varies across countries, being more noticeable in some and less in others. An important aspect within this field of studies is the role of employees in corporate governance, typically perceived as inputs or suppliers transformed by managers into sales and profits. Although the importance of well-paid and satisfied employees is acknowledged, this aspect is not commonly regarded as a corporate governance issue concerning the alignment of company stakeholders' interests (Urban 6). In certain countries, however, where social considerations and the role of employees hold greater sway, their involvement tends to be formalised, exemplified by Germany-inspired codetermination where employees are integrated into the boardroom. The role of employees in decision-making can range from technical involvement in improvements to strategic participation in decisions crucial to corporate management, including investment directions and profit distribution. The external dimension of corporate governance shifts the focus away from relationships among shareholders or between shareholders and managers. Instead, it introduces a legitimacy perspective and an efficiency perspective, suggesting that emphasis on such aspects could enhance productivity and bring more value to individuals within the organisation (Urban 6).

The external aspect of corporate governance underscores the dual nature of a business entity as a social entity capable of enhancing the lives of employees through their integration into various levels of decision-making. This integration extends beyond technical and operational aspects, encompassing strategic and political dimensions where feasible. The objective is to enhance the vitality of the company, ensuring efficacy and financial gains not only for the company but also for employees and their interests. This holistic approach can yield significant positive outcomes in overall motivation and the corporate social legitimacy landscape (ibid. 6).

The legal system within which firms operate, specifically corporate law, has been widely recognised as a mechanism that formally and normatively defines the nature of firm relationships (Aguilera et al. 496). The market for corporate control has historically received significant attention among external mechanisms, particularly in finance and accounting literature, where it is linked to enhanced protection of shareholder rights (ibid. 496). Additionally, research conducted by scholars such as Aspara et al. (2014), indicates that there is a growing focus on the role of rating organisations, including analysts, and the media in reducing information asymmetry and penalising inappropriate or illegitimate firm actions. Stakeholder activism has gained prominence, driven by institutional investors, proxy advisor agencies, socially engaged stakeholders, and celebrity shareholder activists (Aguilera et al. 496). Lastly, as analysed in a study by Desender et al. (2013), external auditors are considered an integral component of the corporate governance puzzle, especially concerning information disclosure.

Disregarding external governance mechanisms that could significantly contribute to safeguarding stakeholder rights, managing stakeholder relationships, providing information disclosure, and offering guidance is a notable oversight. Therefore, there is a necessity for greater clarity regarding which external governance mechanisms can contribute to achieving the various elements of effective corporate governance. Additionally, there is a need for better insights into how these mechanisms will fulfil their roles (Aguilera et al. 496-497). A key argument in the study of external corporate governance mechanisms emphasises that while internal governance mechanisms may directly discipline managers, their effectiveness is often heightened when activated in conjunction with external governance mechanisms. For instance, the impact of an internal control mechanism, like the board of directors, can be magnified by the presence of external mechanisms such as legal provisions, negative press, or pressure from rating agencies (Aguilera et al. 497).

Starting with the legal system and the market for corporate control who operate in tandem, as evidenced by a study conducted by Bertrand and Mullainathan (2003). When antitakeover laws shield managers from takeovers, there is a tendency for overall firm productivity and profitability to decline. Burkart et al. (2014) have recently formulated a theoretical model to enhance the understanding of the symbiotic role of legal investor protection in the efficiency of the market for corporate control, especially when bidders face financial constraints.

Secondly, external auditors may interact with the legal system, although the dynamics of this relationship are not always straightforward. Francis, Schipper, and Vincent (2002) empirically demonstrate that countries with weak legal environments generally require lower quality audits than those in strong legal environments. Further it can be added that legal liability threats are essential for promoting gatekeeper effectiveness. On the other hand, there is evidence that external auditors fill a void in weak legal environments as shown in a study by Choi and Wong, (2007). Even if the legal liability risk for auditors is reduced, other auditors may have strong reputational concerns, potentially amplified by the media. Thus, audit reputational concerns could serve as a substitute for weak legal liability (Aguilera et al. 543).

Thirdly, there exists a complementary relationship between stakeholder activism and the market for corporate control. Goranova and Ryan (2014) propose a connection between shareholder engagement and the effectiveness of the market for corporate control, arguing that activism, by reducing managerial entrenchment, could stimulate activity in the market for corporate control. Research by Greenwood and Schor (2009) demonstrates that firms targeted by activists are more vulnerable to acquisitions. They posit that hedge funds, with their short investment horizons and significant positions in target firms, find M&A the most attractive exit option. These findings suggest that hedge funds may be better equipped to identify undervalued targets and prompt a takeover than to engage in long-term corporate governance or operating issues (Aguilera et al. 543).

Fourthly, the media has been observed to influence audit opinions. It was found that negative press coverage enhances auditors' perception of a client's bankruptcy probability, leading auditors to modify the audit opinion, even in the absence of new information (Aguilera et al. 543). Lastly, stakeholder activists may target the firm's corporate image and reputation, often relying on the media to broadcast illegitimate corporate behaviours and challenge dominant corporate images as indicated in a study by Gamson et al. (1992). The media serves as a channel through which stakeholder activists can exert more direct pressure on corporations. In this line of research, it would be beneficial to explore how the media both mediates and moderates the effect of other traditional governance mechanisms (Aguilera et al. 543).

To end this chapter, the impact of external mechanisms on internal mechanisms of corporate governance will be explored.

The legal system significantly shapes internal governance mechanisms by defining shareholder rights, influencing board importance, and impacting executive compensation. Legal changes, have redefined governance structures, granting wider rights to shareholders and emphasising board oversight responsibilities (Aguilera et al. 548). In firms with dispersed ownership, the market for corporate control becomes crucial, incentivising directors and managers to avoid opportunistic behaviour and influencing compensation arrangements. The market for corporate control may have both substitution and complementary effects on managerial incentives and compensation design as shown in research conducted by Dyck, Volchkova, and Zingales (2002). External auditors enhance the governance role of the board by providing qualitative information. The level of board independence influences audit fees, suggesting that external auditors contribute to the effectiveness of board monitoring. In some cases, as shown in a study by Carcello et al. (2002), external auditors act as substitutes for effective boards, particularly when boards lack incentives or capacity for monitoring. Rating agencies influence both boards and executive compensation by evaluating corporate governance practices. Corporate governance ratings induce changes in board composition and compensation schemes, promoting legitimacy and avoiding reputational loss. Downgrades from rating organisations may pressure boards to improve their performance, although the effectiveness of such changes can vary as in indicated in a study by Bednar (2012). Stakeholder activism enhances governance effectiveness by activating internal mechanisms, particularly impacting owners. Activism allows shareholders, especially minority shareholders, to influence firm behaviour. The relationship between activism and board effectiveness is mixed, but it has a significant impact on executive compensation, constraining excessive pay and influencing pay-for-performance as emphasised in the research done by Ertimur, Ferri, and Muslu (2011). The media has moderate effects on internal corporate governance mechanisms and may interact with them to influence governance effectiveness. Negative media coverage can motivate boards to govern more effectively, and there may be complementarities between the board and the media. A study by Bednar, Boivie, and Prince (2013) suggests that media coverage can impact ownership arrangements, especially concerning executive compensation, providing a platform for activists dissatisfied with pay practices.

2.5. Corporate Social Responsibility and Environmental Social and Governance Ranking

Exploring the impact of Corporate Social Responsibility (CSR) and Environmental, Social, and Governance (ESG) ranking is crucial when it comes to understanding contemporary corporate dynamics. With a global business landscape that is continuously evolving, there is an increasing recognition of the integral role that organisations play in addressing societal and environmental concerns. This chapter aims to analyse the multifaceted realm of CSR, examining how businesses navigate ethical responsibilities, community engagement, and sustainable practices. Concurrently, the focus extends to ESG ranking, discussing the criteria and methodologies employed to assess a company's environmental impact, social initiatives, and governance structures. The expansion of initiatives related to Corporate Social Responsibility (CSR) was one of the most prominent trends within in the past years. Although there is no universal definition of CSR, it generally entails actions undertaken by companies concerning their employees, communities, and the environment, surpassing the legal obligations imposed on a firm (Barnea & Rubin 71). The European Commission (2001) provides a more precise definition, describing CSR as a concept wherein companies integrate social and environmental concerns into their business operations and interactions with stakeholders. This integration is expected to manifest in the form of a triple bottom line, encompassing financial, social, and environmental performance (Karwowski & Raulinajtys-Grzybek 1270).

Numerous scholars, such as Porter and Kramer (2002), Campbell (2007) or Utting (2005), argue that CSR not only benefits society but also proves advantageous for the firms. Investigations into the motivations behind CSR activities reveal that financially stable companies are more inclined to embrace CSR initiatives. Conversely, CSR has the potential to enhance a firm's reputation, mitigate reputational risks, and sustain legitimacy.

The perception of corporate social responsibility underwent a significant transformation after the 1990s, becoming a crucial concept in management, marketing, and communication literature. Furthermore, for businesses, non-governmental organisations, consumers, and governments individual CSR guidelines were established and implemented. The shift in perspective led international organisations like the United Nations and the World Bank to create dedicated divisions for the research and promotion of CSR practices. By the early 2000s, over 90% of Fortune 500 companies had declared their adoption of CSR, evident in their annual reports covering human resource decisions, layoff programs, plant closures, environmental performance, and social issues. Over the past two decades, there has been a noticeable change in the discourse surrounding CSR. The focus has shifted away from the financial benefits to emphasise the reputational impact, stakeholder relationships, and communication with diverse audiences. This shift is reflected in literature, moving beyond the tangible gains to highlight the broader impacts and considerations associated with CSR activities (Hoff-Clausen & Ihlen 9).

Generally, information used to analyse CSR activities is provided by large institutions, such as Kinder, Lydenberg, and Domini, short KLD (Barnea & Rubin 72). In examining eight overarching categories—community, corporate governance, diversity, employee relations, environment, human rights, product quality, and controversial business—the KLD assesses strengths and weaknesses while proposing corresponding corporate actions. Notably, most identified strengths and weaknesses within these domains tend to incur increased costs, with exceptions observed in the product quality and rules limiting managerial compensation in the employee relations section. This trend implies a shift from shareholder value maximisation to a broader stakeholder satisfaction approach, encompassing local communities, workers, and domestic and foreign subcontractors (Becchetti et al. 1628).

However, it is essential to acknowledge that CSR decisions can positively impact market value by enhancing worker productivity, particularly through wage and non-wage benefits. This productivity-enhancing effect is explored in the efficiency wage literature and models examining shirking and gift exchange. Intrinsic motivations play a crucial role in aligning corporate goals with employee motivations, serving as partial substitutes for monetary transfers. Additionally, scholars such as Freeman (40) suggest that CSR should be seen as an integral part of corporate governance, as they can minimise transaction costs and potential conflicts with stakeholders, acting as an optimal choice. From a market perspective, CSR fosters firm reputation, reducing the risk of consumer activism and legal actions. Finally, firms embracing CSR are gaining support from ethically responsible consumers, influencing consumption and investment choices (Becchetti et al. 1629). Currently, the outcomes are somewhat varied, but it is reasonable to assert that most research indicates a positive correlation between CSR ratings and financial performance (Barnea & Rubin 72).

Barnea and Rubin further suggest that if CSR ratings can be considered a reliable proxy for CSR spending then CSR policies might lead to different, conflicting interests among shareholders (84). This departure from conventional literature challenges the assumption that all shareholders share similar views on CSR, and that CSR is pursued solely for the enhancement of firm or shareholder value. The conflict analysed in Barnea and Rubin's (study suggests that insiders may derive utility from affiliations with firms boasting high CSR ratings. However, this conflict is mitigated when insiders hold a substantial portion of the firm, as they bear a larger cost associated with activities that reduce firm value. Debt also serves as a conflict-mitigating factor by limiting free cash flow available to insiders. The CSR conflict can be interpreted from two normative perspectives: evidence suggests that firms may over-invest in CSR, potentially diminishing firm value, which is typically viewed negatively as it reduces shareholder value. On the flip side, the CSR conflict promotes a positive social agenda, aligning corporate and social goals. Despite the conventional interpretation of agency conflicts as managers prioritising self-interest at the expense of other shareholders, Barnea and Rubin's (2010) study reveals that the CSR conflict fosters greater alignment between corporate and social objectives. From a social welfare perspective, the impact of this conflict on total welfare hinges on whether firms have a relative advantage in contributing to societal benefit. Exploring the relative advantage of firms in promoting social responsibility holds promise for future research in this domain (Barnea & Rubin 84).

In the preceding section, the dimensions of Corporate Social Responsibility were explored, shedding light on how businesses engage with societal and environmental concerns. In the subsequent part of this chapter, the focus is on Environmental, Social, and Governance (ESG) practices. This section delves into the connections between sustainable business strategies, ethical governance, and the broader impact on stakeholders and the world at large.

Environment, social, and governance (ESG) criteria constitute a novel aspect of Socially Responsible Investments (SRI). SRI represents an ethical investment strategy involving the exclusion of specific industries from one's portfolio based on moral or ethical considerations (Syed 2). Herringer, Firer, and Viviers' (2009) study provides a comprehensive definition of SRI, encompassing various approaches that involve investment selection, retention, and rejection processes grounded in both traditional financial decision criteria and moral, as well as ESG considerations. The first socially responsible mutual fund, the Pioneer Fund, emerged in 1928, founded by evangelical Protestants who opposed alcohol and tobacco. The modern evolution of SRI can be linked to the 1960s political climate, where movements such as women's rights, civil rights, and anti-war activism heightened awareness about SRI. During the 1990s, SRI transitioned from being an activist movement to a commercial venture. The primary objective of ESG criteria or SRI investments is to positively impact environmental, social, and corporate governance issues. SRI involves investing in alignment with one's values and excluding specific companies or industries. ESG, on the other hand, concentrates on environmental, social, and governance factors, serving as an additional tool for evaluating companies (Syed 2).

The key actors in the decision-making process of an investment within any company are the managers. The organisation's conduct mirrors the equilibrium dynamics of an intricate contractual system, consisting of agents with varied and conflicting goals striving to maximise their interests and managers playing a central role. The organisation's viability and prosperity are contingent on the managers' capacity to create ample wealth and contentment for its principal stakeholders (Clarkson 109). The challenge lies in aligning ethical considerations with optimal business outcomes. Managers should discern the ethical practices most suitable for their specific business context. While their central focus should always be on efficiently running their companies and striving for excellence in management and financial performance, the introduction of the new dimension of ESG criteria has shifted the priority of concerns (Syed 2).

A study by Liondis (2005) explored the integration of ESG criteria into investment decision-making, conducting a survey of 195 fund managers worldwide. The survey revealed a growing emphasis on SRI investment beliefs, with 39% of managers expressing the importance of ESG factors in their investment decisions. They believe that poor environmental and governance performance can negatively impact financial outcomes. However, quantifying the value associated with companies' performance in social and environmental aspects poses challenges.

Bourghelle et al.’s (2009) study indicated that fund managers hold a strong belief in ESG practices but prioritise them less in their decision-making. Awareness of ESG within organisations tends to be limited to lower levels or confined to corporate affairs and brand departments, suggesting a need for broader implementation at the head office (Syed 4).

As previously discussed, there is a pressing need for managers to demonstrate a strong commitment to incorporating ESG considerations into the investment decision-making process. A study conducted by Cadman (2011) explored the integration of ESG criteria in decision-making within responsible financial institutions. The study identified challenges such as participation gaps between internal and external interests in decision-making and uncertainty surrounding the involvement of various stakeholders. It was concluded engaging stakeholders in the decision-making process, coupled with evaluating governance, contributes to sustainable development. For comprehensive sustainable development, investors need to comprehend and implement all aspects of ESG criteria in the market (Syed 5). Kocmanová, Karpíšek, and Klímková (2012) expanded the literature by constructing ESG indicators to aid investors, not only in measuring ESG performance but also in creating sustainable value. Using diverse statistical methods, the authors demonstrated that ESG factors contribute to improving both social and financial performance, enhancing shareholder value.

Numerous studies, such as one conducted by Halbritter and Dorfleitner in 2015 analyse the link between a company’s social efforts and its financial performance, based on environmental, social and governance metrics, short ESG ratings. The authors mention that the majority of previously conducted studies finds a positive correlation between a high ESG ranking and a firm’s performance, whereas their own study does not find a significant difference in financial performance when comparing companies with high and low ESG ratings (25).

3. Methodology

In this chapter, the methodology employed in the investigation of corporate governance is comprehensively outlined. The research question and hypotheses that guided the study will be presented, shedding light on the systematic approach taken to gather and analyse pertinent data. This section delves into the intricacies of the research design, data collection methods, and the analytical framework employed to provide answers to the research inquiries.

3.1. Research Question and Hypotheses

The present study revolves around a fundamental inquiry: Which aspects regarding corporate governance influence a potential employee’s decision to choose a company? The crux of this investigation is to delve into the specific dimensions of corporate governance that hold sway over the decisions individuals make when selecting an organisation to advance their professional trajectory.

Central to this research are two hypotheses that seek to quantify the correlation between distinct elements of corporate governance and a company's appeal as a workplace. The first hypothesis (H1) probes into the arena of Environmental, Social, and Governance (ESG) practices:

> There exists a positive association between a company‘s ESG ranking and its popularity as a workplace.

This hypothesis posits that a company's commitment to ethical, sustainable, and socially responsible practices may act as a magnet for individuals seeking alignment with socially conscious and responsible organisations.

The second hypothesis (H2) extends its focus to the composition of a company's board, specifically emphasising diversity. It proposes a positive association between a diverse board and the popularity of a company as a workplace:

> There is a positive association between a diverse board and a company’s popularity as a workplace.

This hypothesis explores the notion that a diverse leadership team may not only contribute to a broader spectrum of perspectives within the organisation but may also enhance the company's allure to individuals valuing inclusivity and diversity in their professional pursuits.

Embedded within this research endeavour is an acknowledgment of a crucial research gap prevailing in existing literature. While the landscape of corporate governance has been extensively explored concerning profitability and overall company performance, a discernible void exists in understanding how these governance structures resonate with potential employees. The existing body of literature has predominantly fixated on financial metrics and company outcomes, neglecting the pivotal aspect of how corporate governance dimensions influence the subjective decisions of individuals in choosing their professional affiliations. This research, thus, seeks to traverse uncharted territories, filling this void by investigating the intersection between corporate governance and the choices made by potential employees, thereby enriching the broader understanding of organisational dynamics.

3.2. Research Methods

This chapter outlines the research methods employed to collect and analyse data for this thesis, which aims to explore the relationships between various factors related to corporate governance mechanisms, workplace popularity, and the factors influencing individuals' choices of workplaces. The study utilises a questionnaire-based survey method to gather insights from 102 participants. This chapter will detail the questionnaire design, participant selection, data collection, and the subsequent data analysis procedures.

The questionnaire begins with a section gathering basic demographic information, ensuring the anonymity of respondents while capturing key details such as age, gender, highest completed degree, and current employment status.

The questionnaire is organised into seven thematic sections, each designed to explore specific aspects of the research. The first part is focussing on familiarity with and perception of corporate governance mechanisms. This section probes participants' understanding and opinions on corporate governance mechanisms, evaluating how familiar they are with these structures and their perceptions of their importance. The following part deals with the importance of transparent information disclosure. Participants are asked to express their views on the significance of transparent information disclosure within corporate governance, gauging their awareness and appreciation of this aspect. The third section addresses workplace popularity. Focusing on what influences participants' perceptions of workplace popularity, this segment delves into their considerations when forming opinions about a workplace. In the following part of the study, the focus shifts to internal mechanisms of corporate governance. It explores various internal corporate governance mechanisms, including board diversity, the strength of corporate governance practices, CEO remuneration and its link to ESG performance, transparency of CEO remuneration, and ownership structure and concentration. Following the internal mechanisms of corporate governance, the adjacent section dives into external mechanisms of corporate governance. Examining external factors, such as the legal framework, commitment to ethical business practices, public image, and media coverage, participants are asked to share their perspectives on these elements. The following section investigates factors that impact participants' decisions when choosing a workplace, encompassing CEO remuneration, ownership structure, external mechanisms, and the importance of strengthening corporate governance practices. In the final part of the questionnaire participants express their views on the significance of reinforcing corporate governance practices within organisations, providing insights into their perceptions of the overall importance of governance.

3.3. Demographic Data

Upon meticulous preparation and thorough data cleansing procedures, a corpus of 102 valid responses remains for analysis. The inherent anonymity of the survey constrains the depth of participant insight; however, an initial foray into the demographic composition is imperative before embarking on a granular exploration of the forthcoming results. This preliminary step is pivotal in establishing the contextual framework, offering a nuanced comprehension of the cohort under investigation. Subsequently, this study delves into the multifaceted demographic profiles, capturing essential attributes such as age, gender distribution, educational attainments, and occupational engagements.

The questionnaire drew insights from a diverse pool of participants, reflecting varied demographics and backgrounds. A significant portion of the respondents fell within the age range of 25-29 years, constituting 49% of the study's population. The gender distribution skewed towards females, encompassing 62.7%, while the remaining 37.3% identified as male. In terms of educational attainment, 43.1% of participants had completed a bachelor's degree, 40.2% held a master's degree, and 15.7% had completed their high school education. Notably, a singular participant had achieved a PhD or a higher academic qualification, contributing to the academic diversity of the sample. On the occupational front, 63.7% of respondents were employed full time, 15.7% identified as students, 10.8% held part-time employment, and 4.9% were either unemployed or actively seeking employment. Additionally, 5% of participants reported engaging in alternative forms of employment, such as working students or being on maternal leave. This comprehensive demographic overview sets the stage for a nuanced exploration of participant perspectives on corporate governance and related factors.

4. Results

This section provides a comprehensive analysis of survey responses, aiming to illuminate participants' perceptions and attitudes toward key elements of corporate governance. Through a systematic examination of responses, patterns, trends, and variations across dimensions, including information disclosure, workplace popularity, internal corporate governance mechanisms, external corporate governance mechanisms, and concluding with final questions addressing the impact of corporate governance mechanisms. The exploration covers a broad spectrum of organisational aspects, reflecting the diverse nature of the questionnaire. The analysis commences with an in-depth investigation into respondents' familiarity with the concept of corporate governance, evaluating the degree to which individuals possess a foundational understanding. Subsequently, the discussion shifts to the perceived importance of corporate governance, probing the significance participants attribute to its role in a company's overall success. Extending beyond corporate governance, the chapter delves into the multifaceted responses garnered from sections dedicated to information disclosure practices, perceptions of workplace popularity, internal and external corporate governance mechanisms, and culminates with final questions exploring the perceived impact of these mechanisms on organisational dynamics. As each dimension is explored, the goal is to present a holistic understanding of the diverse perspectives embedded in the survey data. Visual aids, descriptive statistics, and comparative insights accompany the textual analysis, providing readers with a nuanced portrayal of respondents' viewpoints on a range of organisational aspects.

The assessment of respondents' familiarity with the concept of corporate governance revealed an intriguing distribution. The mean of 3 indicates a moderate level of familiarity, while the median, also at 3, aligns with this central tendency. However, the presence of a mode at 2 suggests the existence of a subgroup within the sample that possesses a comparatively lower level of familiarity. The standard deviation of approximately 1.03 illustrates the dispersion of responses around the mean, indicating a certain degree of variability in participants' levels of familiarity. To gain further insights, a comparative analysis was conducted among various demographic groups, considering factors such as age, educational background, and professional experience. Results indicated noteworthy variations in familiarity levels across these groups. This suggests that certain demographic characteristics may influence the degree to which individuals are familiar with corporate governance concepts.

Respondents expressed a robust consensus regarding the significance of corporate governance for a company's overall success. The mean, median, and mode, all clustered around 4, underscore the unanimous acknowledgment of its importance. The low standard deviation, as shown in the table below, suggests a high degree of agreement among participants, indicating a consistent perspective regarding the crucial role that corporate governance plays in achieving organisational success. In examining the responses across demographic segments, it became evident that while the overall sentiment was unanimous, certain demographic groups exhibited nuanced variations in the perceived importance of corporate governance. Further investigation into these variations could provide valuable insights into the factors that influence individuals' perceptions of the importance of corporate governance.

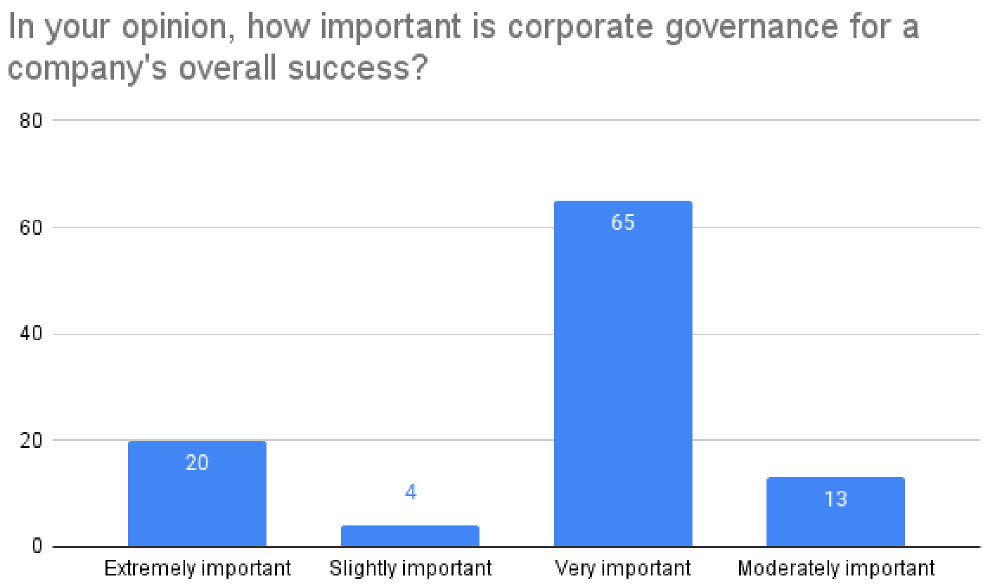

Figure 1: CG and Company Success

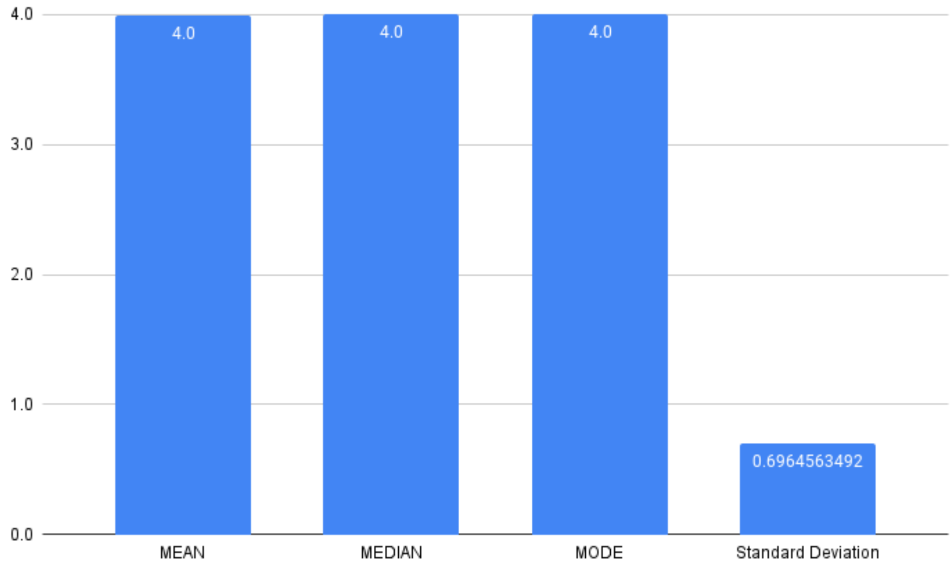

Figure 2: CG and Company Success

Participants consistently expressed a strong belief in the positive impact of transparent information disclosure by a company on its popularity as a workplace, as illustrated in the graph below. The mean, median, and mode values underscore a unanimous agreement among respondents regarding the influence of practices such as disclosing wages, decision-making processes, and promotions. The relatively low standard deviation indicates a high level of consensus and minimal variability in responses, highlighting the robustness of this shared perspective. Regardless of factors such as age, tenure, or departmental affiliation, the consensus on the influence of transparent information disclosure remained remarkably consistent. This suggests a universal acknowledgment among participants of the importance of openness and transparency in shaping perceptions of a company as an employer of choice.

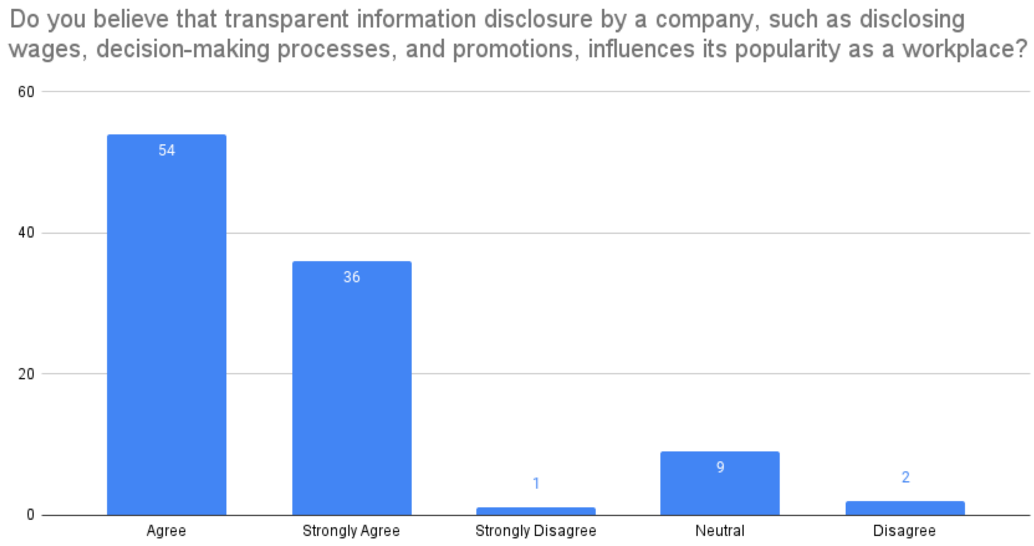

Figure 3: Information Disclosure

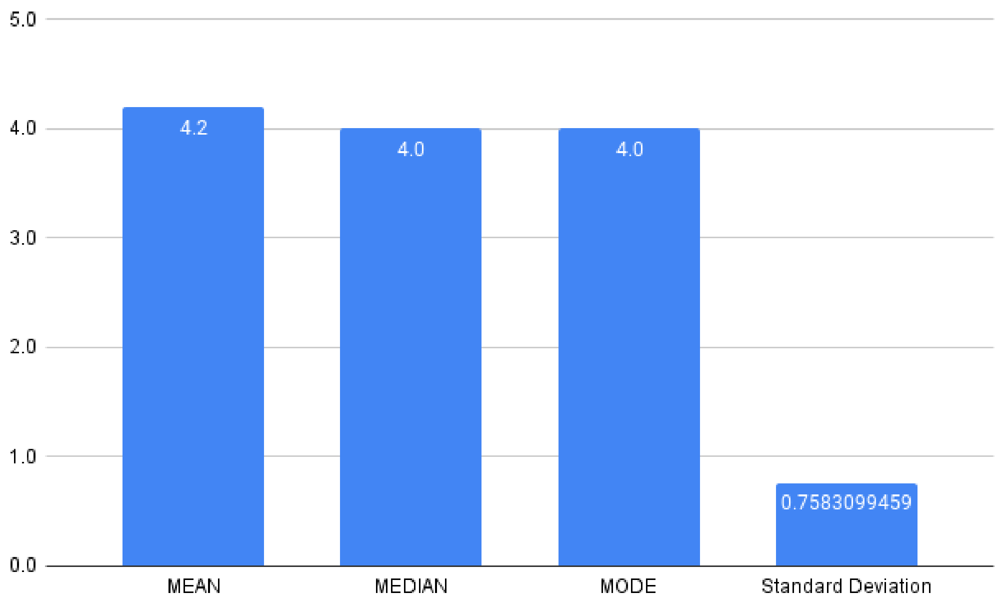

Figure 4: Information Disclosure

Respondents overwhelmingly perceived a company's Environmental, Social, and Governance (ESG) ranking as a significant factor influencing its attractiveness as a potential employer, as shown in the charts below. The mean, median, and mode, all centred around 4, reflect a consensus on the importance placed on a company's commitment to ESG principles. The marginally higher standard deviation, compared to the previous question, suggests a slightly greater variability in responses, indicating nuanced perspectives among participants regarding the impact of ESG rankings. Demographic analyses revealed subtle variations in the perceived impact of ESG rankings, particularly among participants with diverse educational backgrounds and varying levels of professional experience. These nuanced differences provide valuable insights into the factors that may shape individuals' considerations when evaluating a company's commitment to ESG criteria.

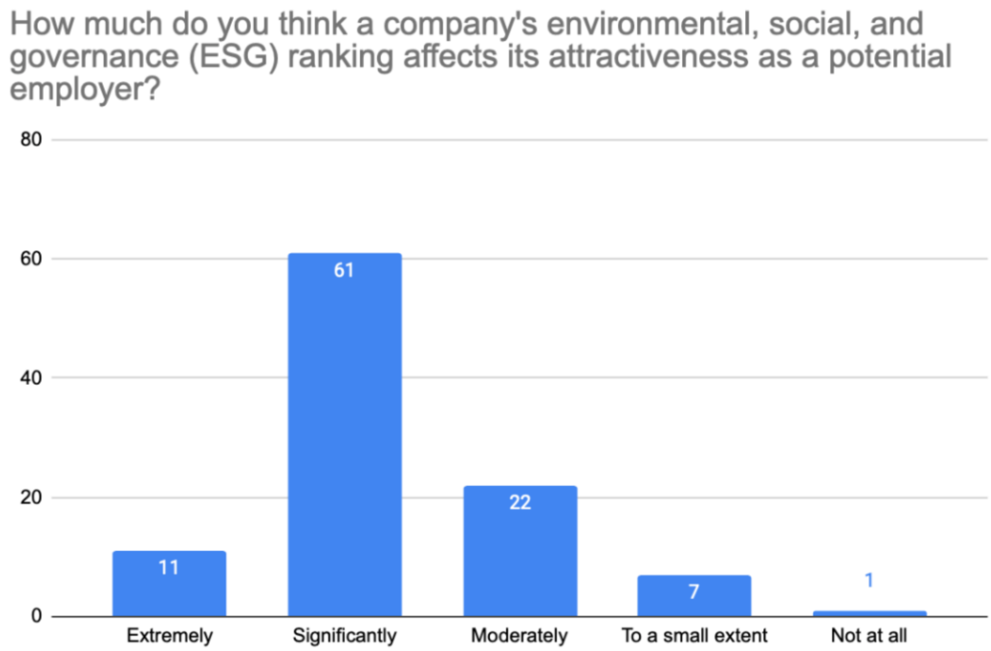

Figure 5: ESG

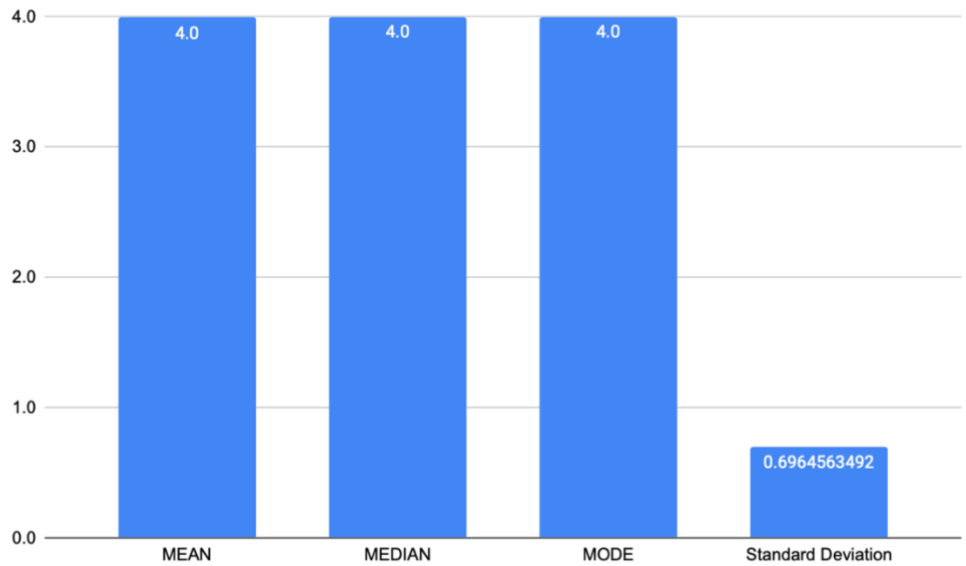

Figure 6: ESG

The analysis of factors influencing workplace popularity reveals a nuanced perspective among survey participants. While financial considerations, particularly competitive salary and benefits, emerged as a significant determinant with 24.0% of respondents prioritising this aspect, other crucial factors also played a substantial role. Work-life balance was highlighted by 21.0% of participants, underscoring the importance of maintaining a healthy equilibrium between professional and personal life. Similarly, career growth opportunities garnered attention from 20.1% of respondents, emphasising the significance of professional advancement in shaping perceptions of workplace popularity. Additional factors contributing to workplace popularity included company culture and values (8.4%), diversity and inclusion initiatives (3.3%), positive reputation in the market (4.2%), flexible work arrangements (10.5%), and employee engagement programs (0.3%). This diverse set of considerations reflects the multifaceted nature of how individuals evaluate an organisation's appeal as an employer.

In exploring the participants' mindset regarding corporate governance practices, a noteworthy majority (57%) indicated an active consideration of such practices before applying for a job. This finding underscores a growing awareness and significance attributed to corporate governance standards in the decision-making process of potential employees. The remaining 43% of respondents, while not explicitly considering corporate governance practices, contribute to the nuanced landscape of factors that individuals weigh when evaluating the attractiveness of a workplace.

When evaluating the significance of board diversity in shaping perceptions of a company as a potential employer, respondents provided a nuanced perspective, as figures 7 and 8 indicate. The mean, median and mode suggest a moderate level of importance. However, the standard deviation highlights the variability in responses, proposing diverse viewpoints among participants regarding the impact of board diversity. The definition of board diversity, encompassing age, gender, background, and the distinction between insiders and independent board members, underscores the multifaceted nature of this consideration.

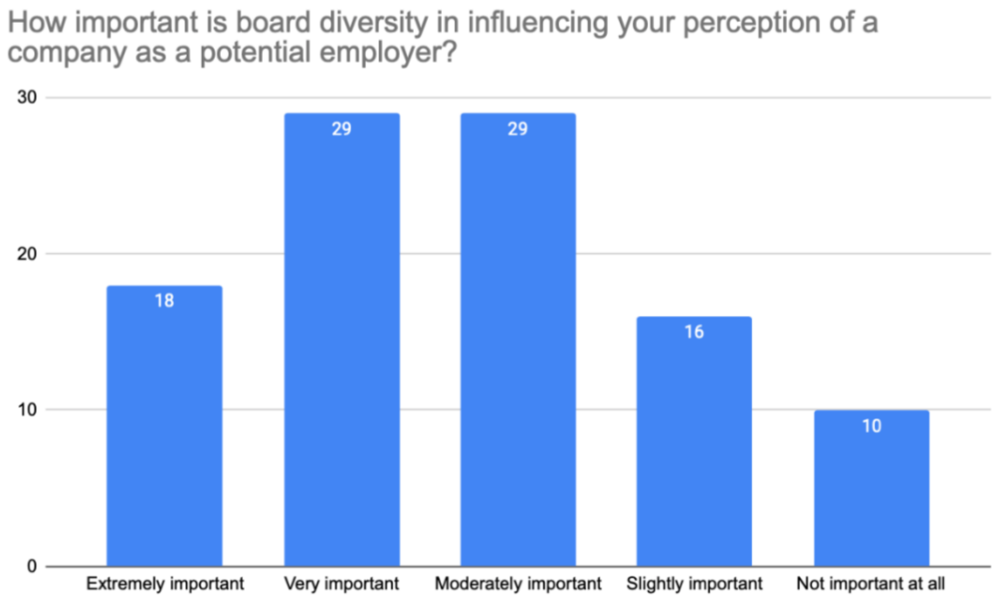

Figure 7: Board Diversity

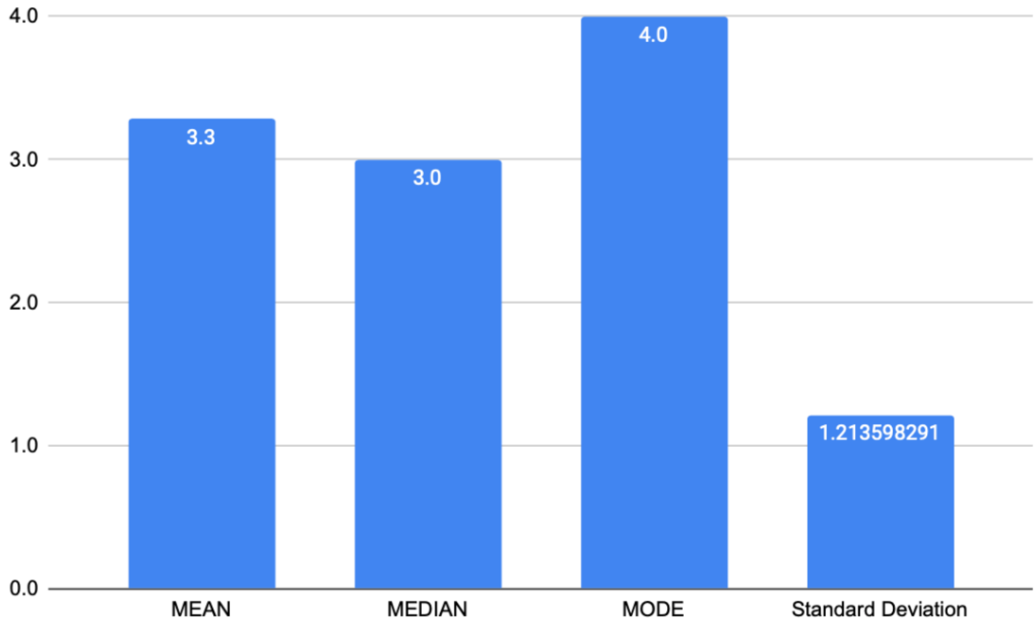

Figure 8: Board Diversity

Respondents overwhelmingly expressed a strong preference for working with companies exhibiting robust corporate governance practices. The mean, median, and mode, all close to 4, signify a unanimous agreement among participants on the importance they attribute to strong governance. The low standard deviation signals a high level of consensus, emphasising the collective inclination toward favouring companies with a demonstrated commitment to governance excellence, as shown in the table below.

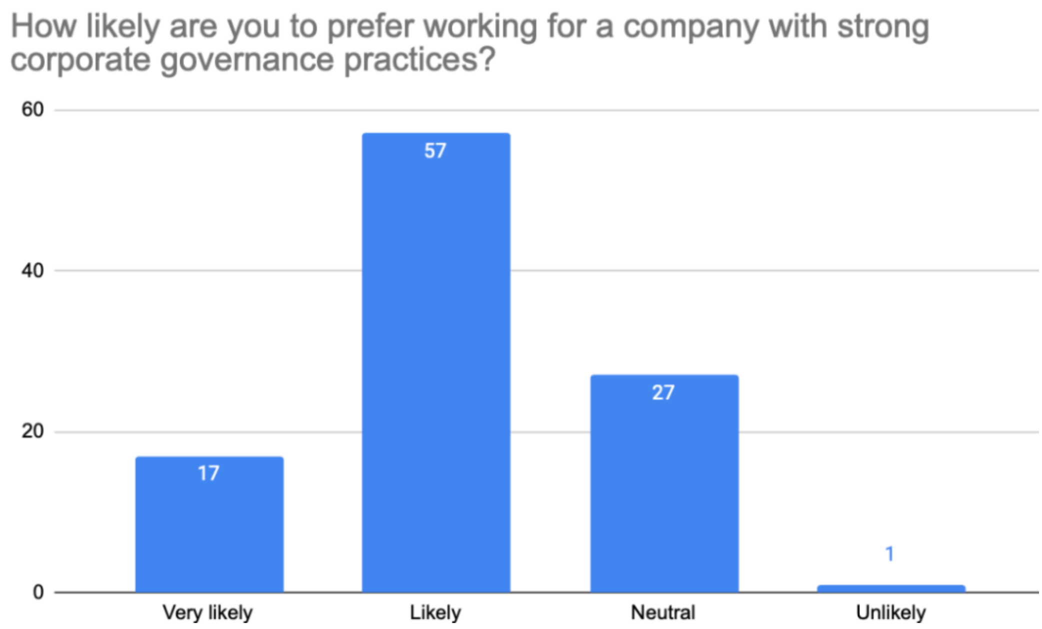

Figure 9: Impact of CG

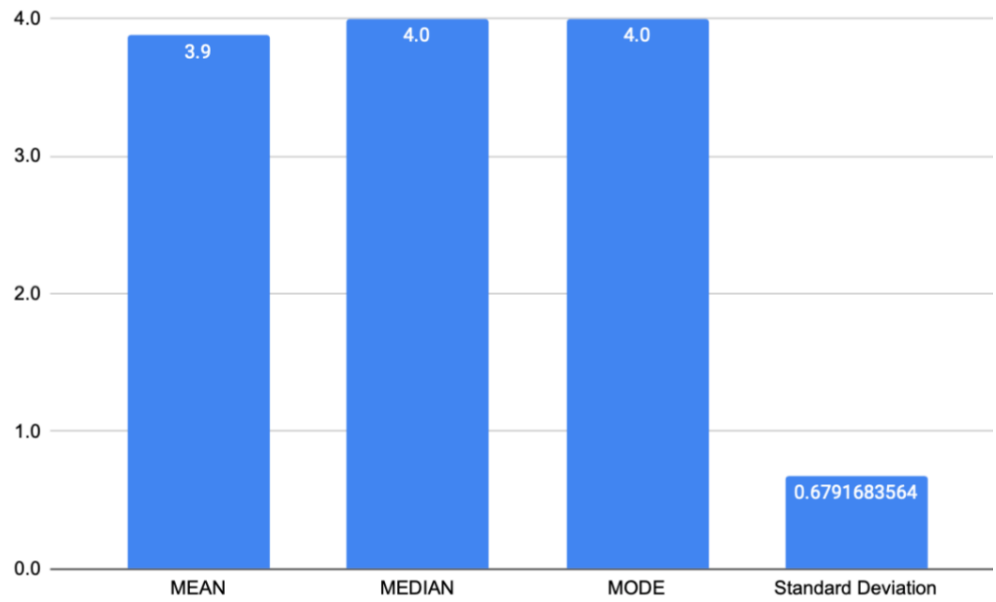

Figure 10: Impact of CG

A notable 81% of respondents endorsed the idea of linking CEO remuneration to the company's environmental, social, and governance (ESG) performance. This finding suggests a strong inclination among participants toward aligning executive compensation with broader sustainability and ethical considerations.

In assessing the influence of CEO remuneration transparency on the perception of a company as a desirable workplace, participants indicated a positive stance. The mean, median, and mode suggest a general consensus on the importance of transparent disclosure. The standard deviation indicates a degree of variability, reflecting nuanced perspectives regarding the extent to which transparency impacts perceptions, as can be seen in the tables below.

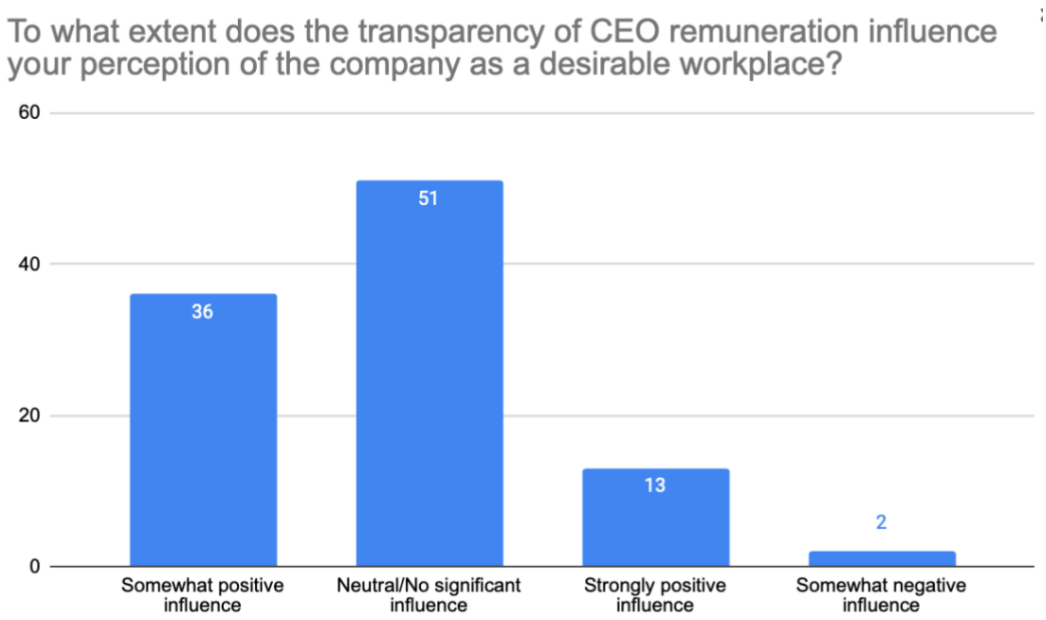

Figure 11: CEO Renumeration

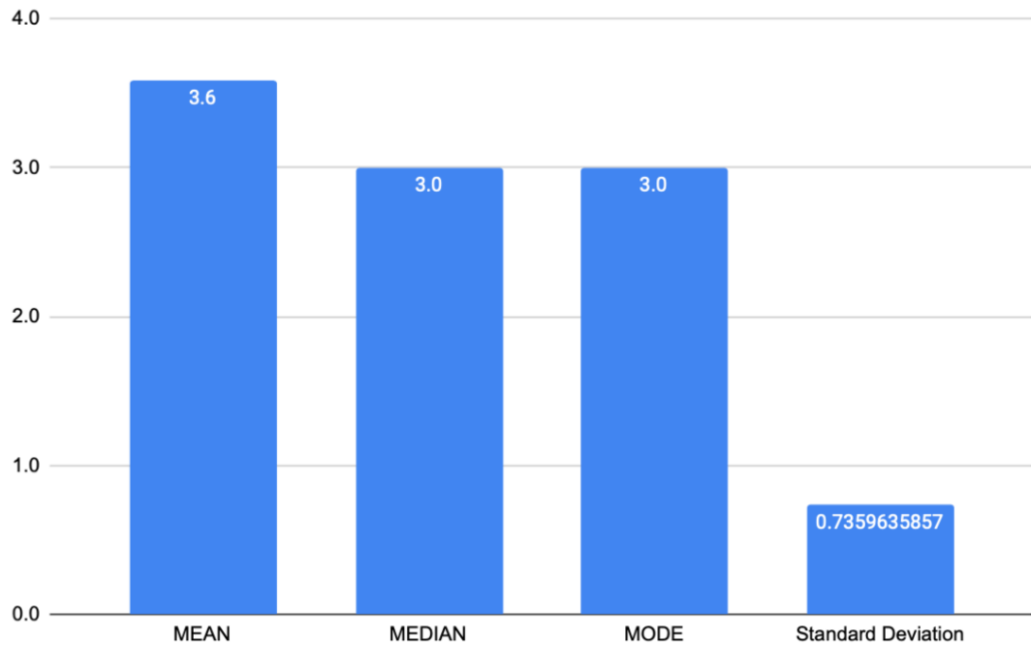

Figure 12: CEO Renumeration

Participants, on average, accorded a lower level of importance, with a mean of 2, to the ownership structure of a company when considering it as a potential employer. The median, mode, and standard deviation values further support a shared perspective of limited influence exerted by ownership structure on employment considerations, as indicated in the figures below. However, the ownership structure of a company still has some impact on the decision making process of potential employees, as 68 participants indicated in their responses.

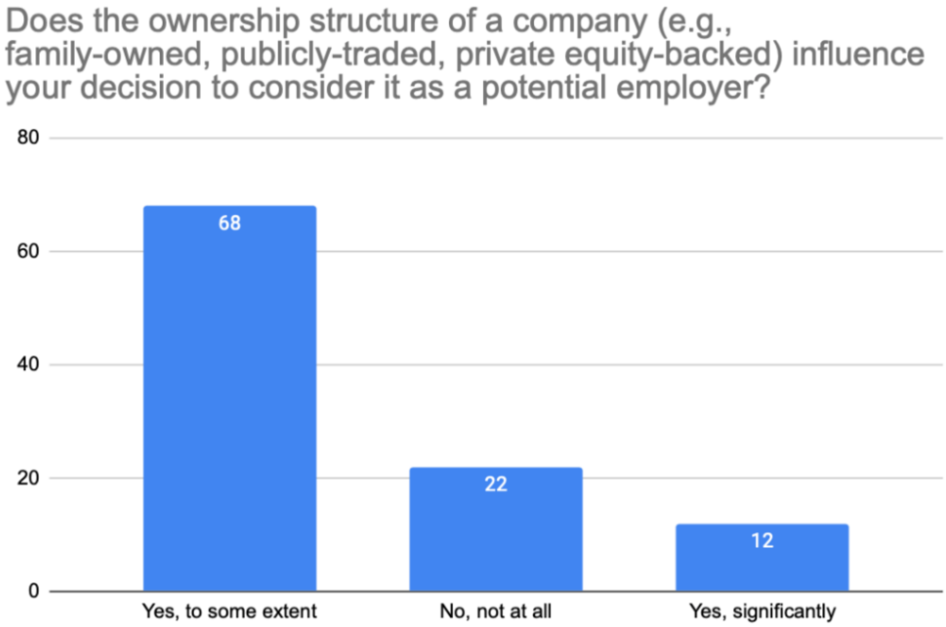

Figure 13: Ownership Structure

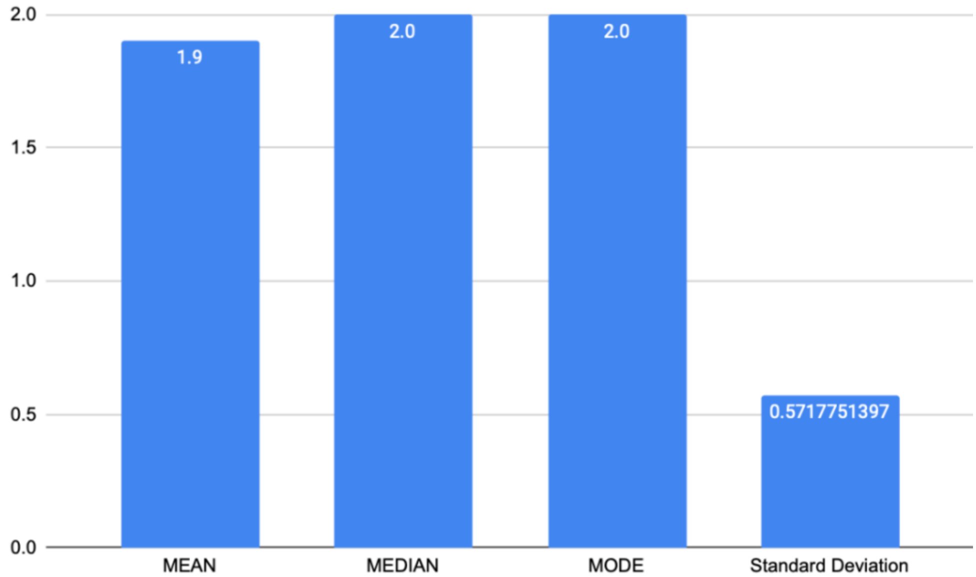

Figure 14: Ownership Structure

In evaluating the perceived impact of ownership concentration, respondents provided a balanced perspective, as indicated in the two graphs below. The mean, median, and mode suggest a moderate significance attributed to ownership concentration in shaping corporate governance practices and workplace dynamics. The standard deviation indicates a level of variability, highlighting the diversity of opinions regarding the extent to which a dominant shareholder may influence organisational dynamics.

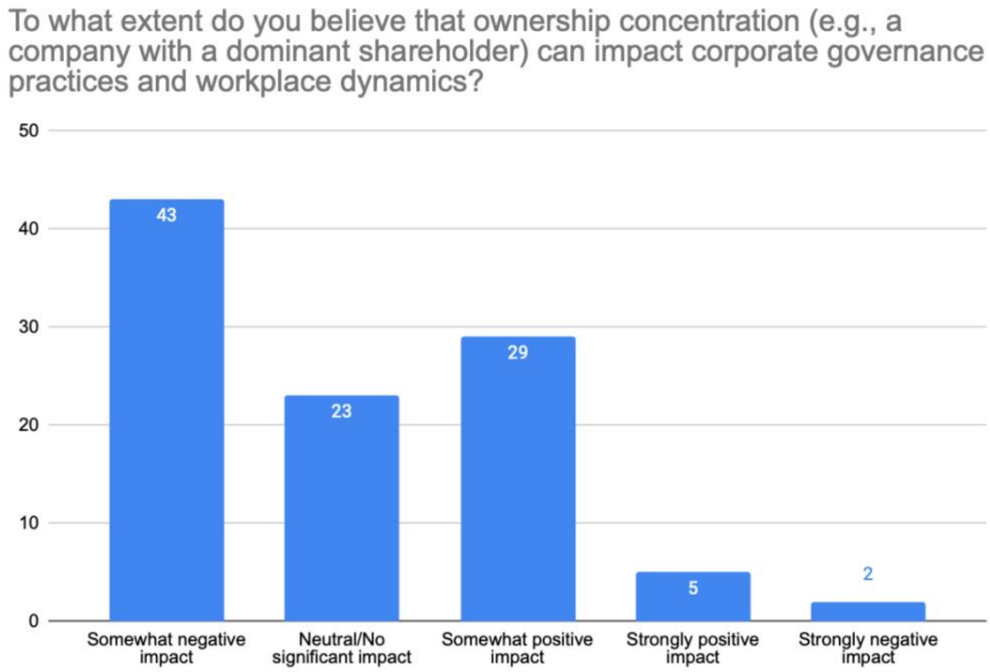

Figure 15: Ownership Concentration

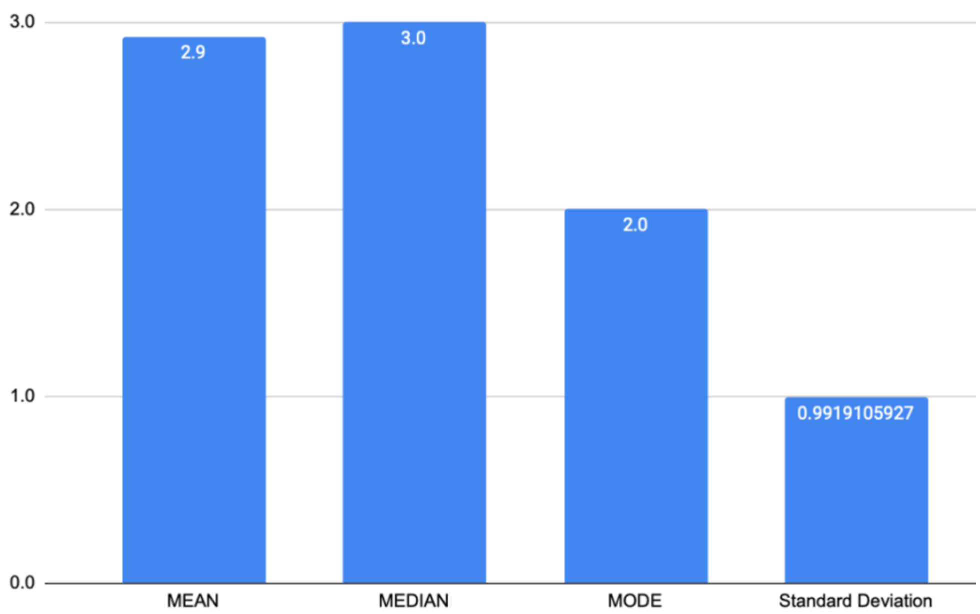

Figure 16: Ownership Concentration

The analysis of internal corporate governance mechanisms unveils a spectrum of perspectives, ranging from the importance of board diversity to preferences for strong governance practices and considerations related to CEO remuneration and ownership structures. These findings may hold important implications for organisations seeking to align their governance practices with the expectations and considerations of potential employees. The nuances revealed in participant responses emphasise the evolving landscape of corporate governance considerations in the contemporary employment environment.

Participants consistently acknowledged the substantial impact of the legal framework and regulations governing corporate behaviour on a company's reputation as an employer. The mean, median, and mode, all recorded around 4, signify a unanimous agreement among respondents on the significance of regulatory compliance. The standard deviation, while indicating some variability, emphasises the overarching consensus regarding the influence of legal and regulatory factors on a company's standing as an employer, as figures 17 and 18 underline.

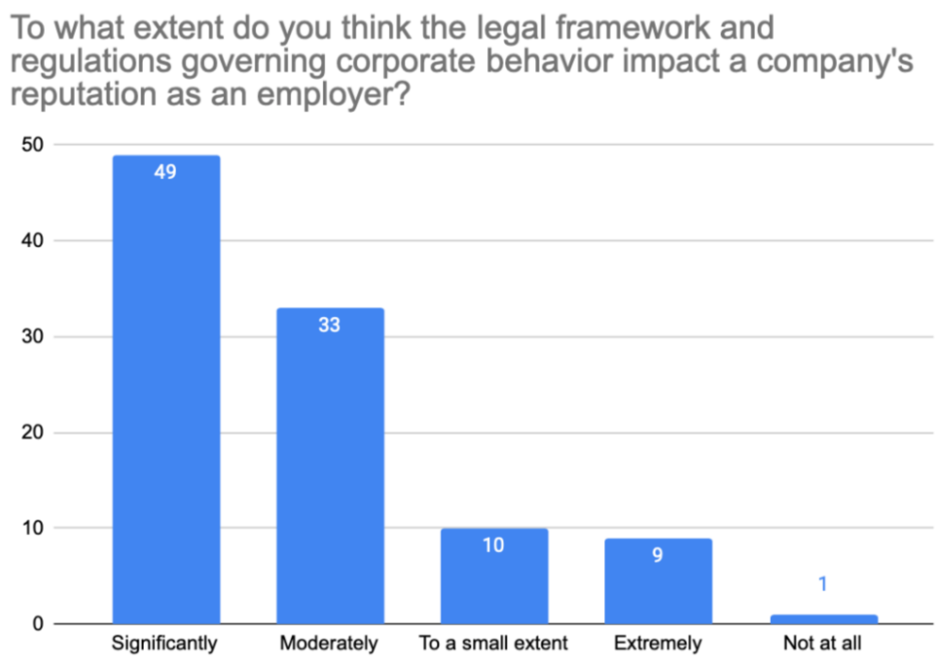

Figure 17: Legal Framework

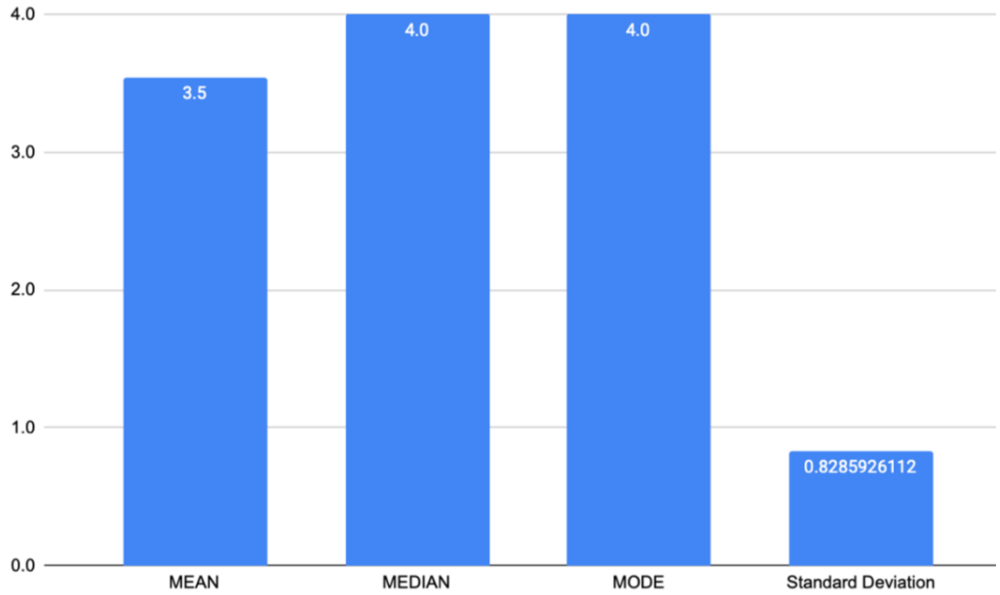

Figure 18: Legal Framework

When assessing the influence of a company's commitment to ethical business practices, as demonstrated through external audits or certifications, participants exhibited a strong alignment in their responses. The mean, median, and mode, all registering around 4, underscore a unanimous agreement on the substantial impact of ethical business practices on individuals' willingness to work for a company. The standard deviation suggests some variability in the perceived degree of influence but does not detract from the overall consensus on the importance of ethical considerations.

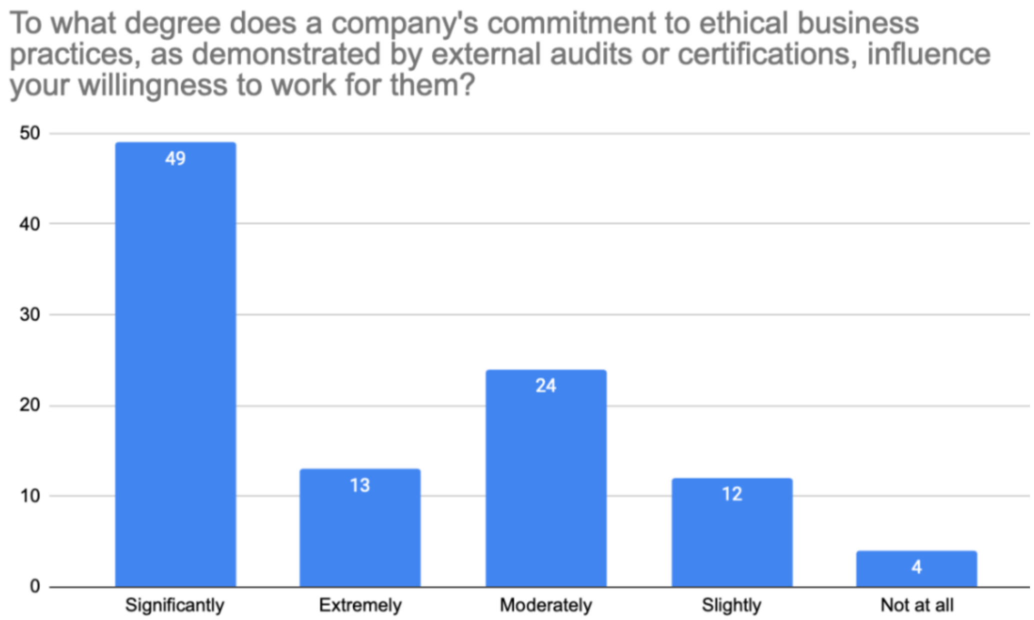

Figure 19: Ethical Business Practices

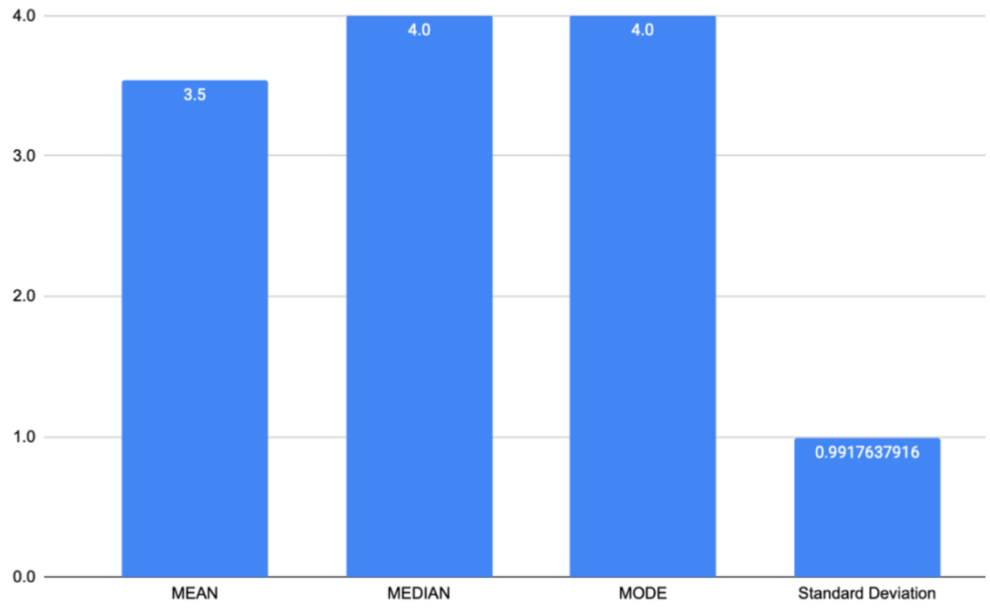

Figure 20: Ethical Business Practices

The analysis of how a company's public image and media reputation influence its popularity as a workplace reveals a robust consensus among participants, as the tables below indicate. The mean, median, and mode, all at 4, signify an undisputed agreement on the substantial impact of public perception on workplace popularity. The standard deviation indicates a level of variability but does not detract from the overarching consensus regarding the pivotal role played by public image and media reputation.

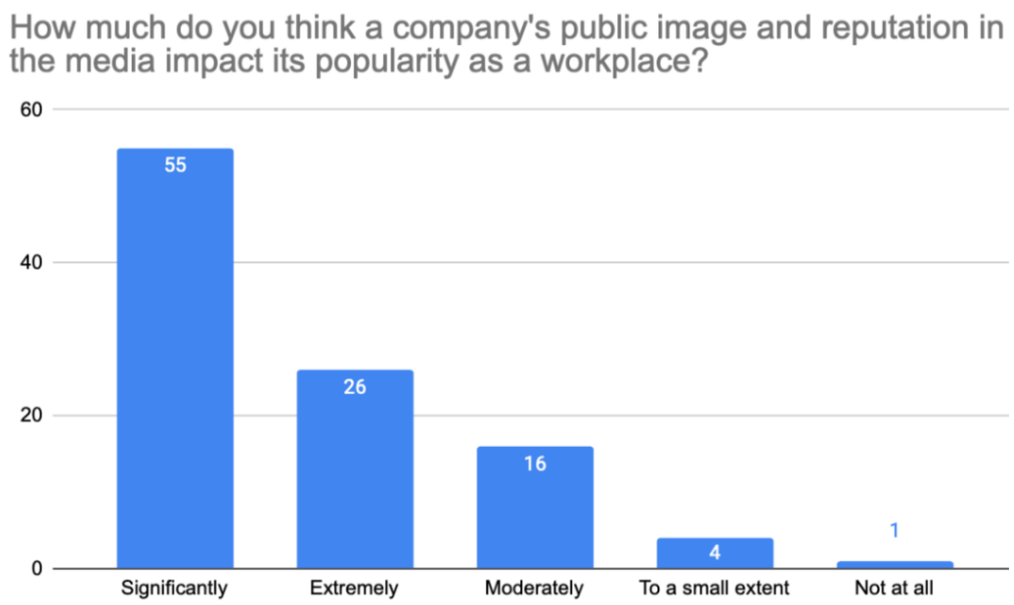

Figure 21: Public Image

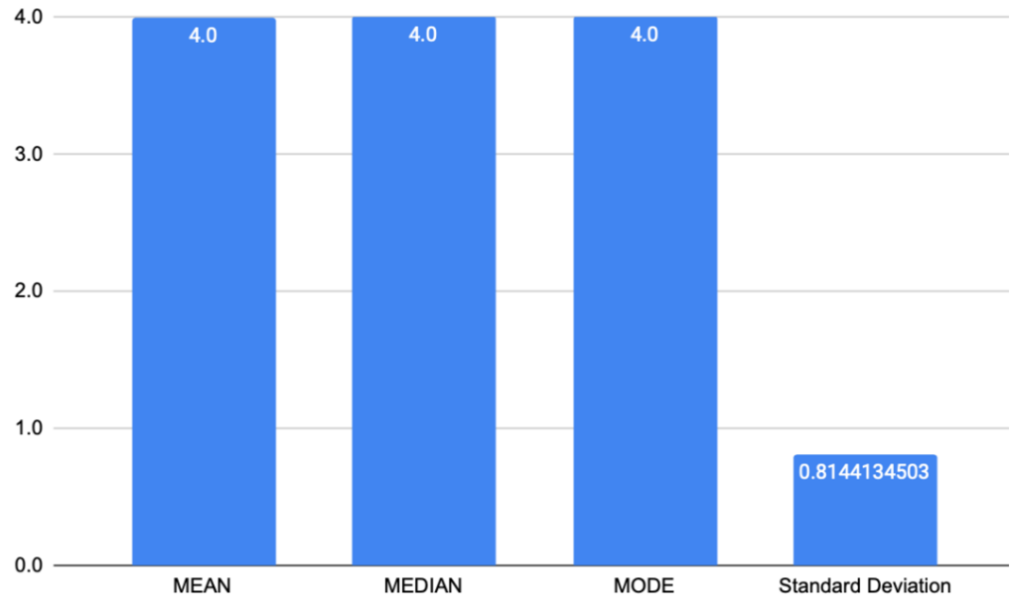

Figure 22: Public Image

A noteworthy 74% of respondents admitted to avoiding applying to a company due to negative media coverage or public controversies surrounding its corporate governance or workplace practices. This finding indicates a significant impact of external perceptions on individual employment decisions. The 26% who indicated no avoidance contribute to the nuanced landscape, reflecting diverse responses and considerations among participants.

The analysis of external corporate governance mechanisms sheds light on the considerable influence exerted by external factors, including legal frameworks, ethical practices, and public perceptions, on individuals' perceptions of companies as employers. The consensus among participants on these external factors emphasises the interconnected nature of corporate governance, public image, and workplace desirability. Organisations can glean valuable insights from these findings to strategically align their external governance practices with the expectations and considerations of potential employees in the competitive job market.

When asked about the extent to which perceptions of a company as an employer have been influenced by CEO remuneration, ownership structure, or external corporate governance mechanisms, participants provided a collective perspective. The mean, median, and mode, all recorded at 3, indicate a moderate level of influence attributed to these factors. The standard deviation suggests some variability, emphasising the nuanced nature of individual responses, as indicated in the charts below. This collective assessment underscores the interconnectedness of CEO remuneration, ownership structures, and external governance mechanisms in shaping the perceptions of companies as desirable workplaces.

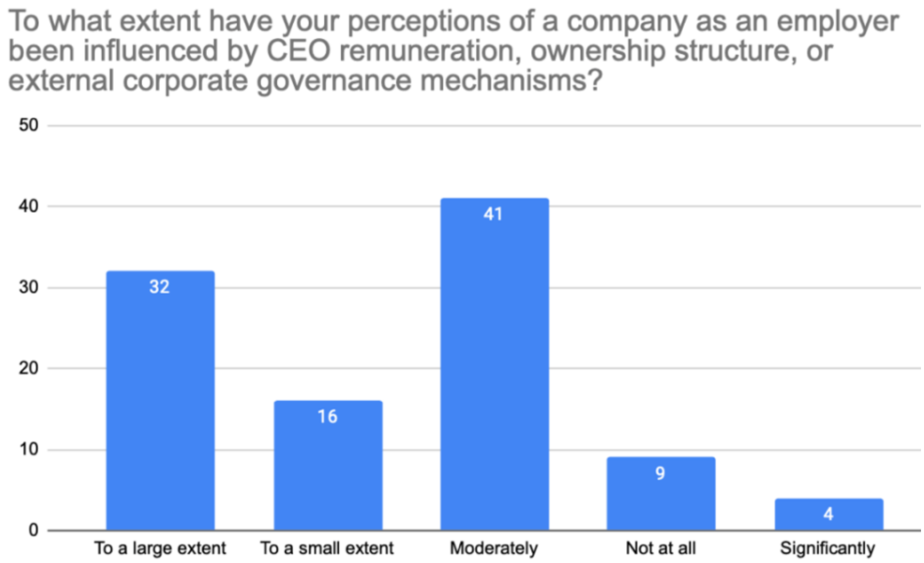

Figure 23: Perception Change

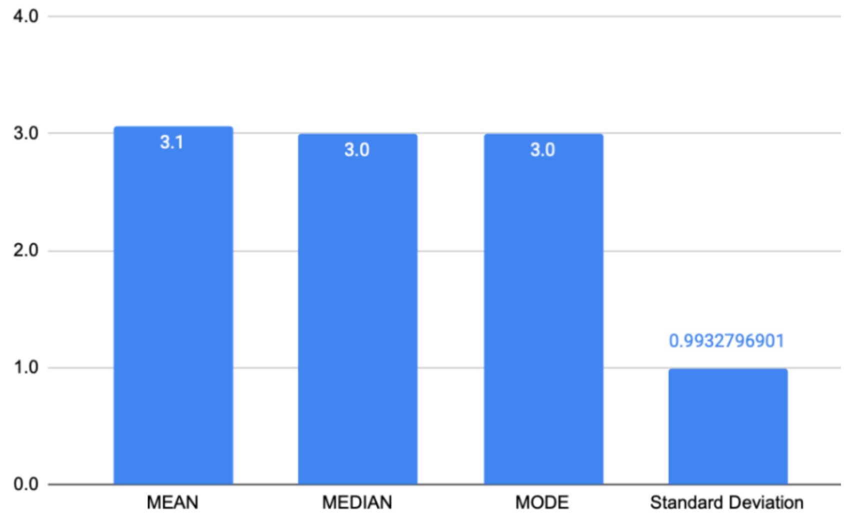

Figure 24: Perception Change

Participants expressed a clear consensus on the importance of companies strengthening their corporate governance practices to enhance their appeal as workplaces. The mean, median, and mode, all around 4, underscore a clear agreement among respondents on the significance of robust governance practices. The standard deviation, while indicating some variability, underlines the overall alignment in participants' views regarding the pivotal role played by corporate governance in shaping the attractiveness of a workplace.

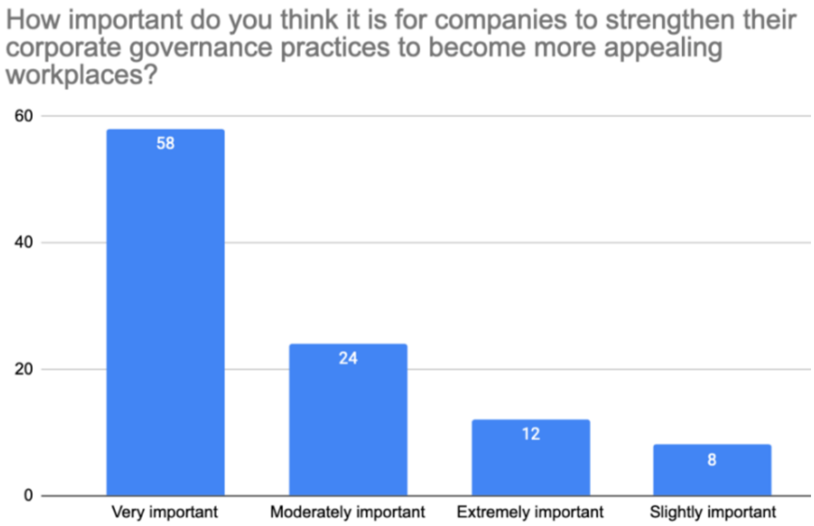

Figure 25: Strengthening CG

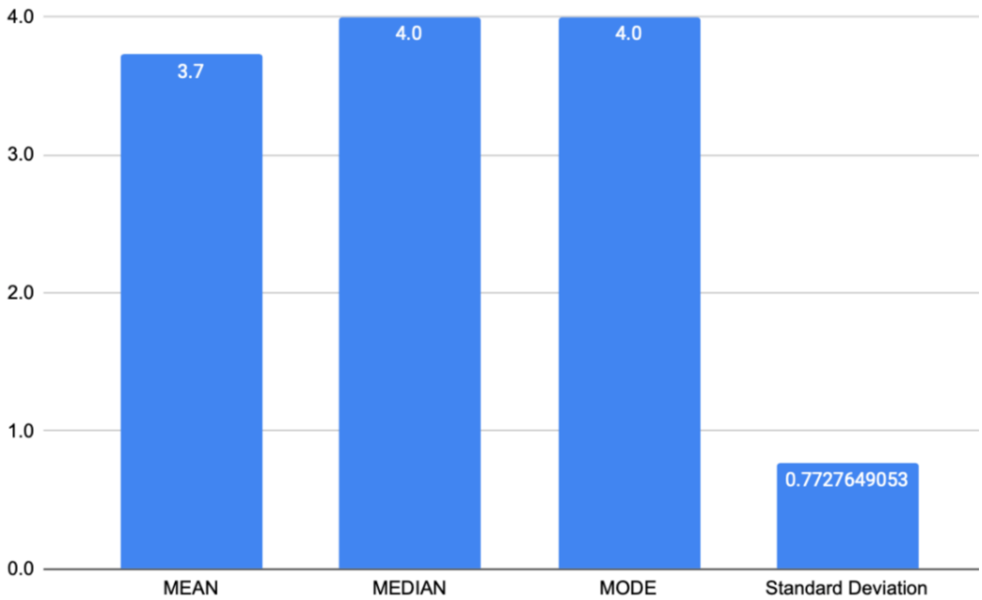

Figure 26: Strengthening CG

The comprehensive impact assessment reflects the intricate web of factors that collectively influence individuals' perceptions of companies as employers. The interconnected nature of CEO remuneration, ownership structures, and external governance mechanisms highlights the need for organisations to adopt a holistic approach to corporate governance. Recognising the pivotal role that governance practices play in shaping workplace appeal, organisations can strategically focus on strengthening these practices to align with the expectations and considerations of the contemporary workforce. This collective perspective provides valuable insights for organisational leaders aiming to enhance their organisations' standing in the competitive employment landscape.

5. Discussion

The exploration into the factors influencing a potential employee's decision to choose a company reveals a complex interplay of corporate governance dimensions. Firstly, the study establishes a positive association between a company's Environmental, Social, and Governance (ESG) ranking and its popularity as a workplace. The empirical evidence gathered supports Hypothesis 1, emphasising the universal acknowledgment among respondents of the importance placed on a company's commitment to ESG principles in shaping perceptions of attractiveness as an employer. This finding underscores the contemporary workforce's emphasis on ethical and sustainable practices, indicating that organisations prioritising ESG considerations likely enhance their desirability. Secondly, the study examines the influence of board diversity on a company's popularity as a workplace. The results affirm Hypothesis 2, indicating a positive association between a diverse board and a company's attractiveness as an employer. The nuanced perspectives revealed in participant responses underscore the significance of board diversity in shaping workplace perceptions, providing valuable insights into the multifaceted considerations that individuals weigh when evaluating potential employers. Overall, this research contributes to a nuanced understanding of how corporate governance dimensions impact the choices made by potential employees in selecting a company.

The findings of this study further align with and contribute to the main theories analysed in the literature review, namely agency theory, stewardship theory, stakeholder theory, and resource-dependency theory as described in the subsequent paragraphs.

The positive association between a company's Environmental, Social, and Governance (ESG) ranking and its popularity as a workplace resonates with agency theory. The emphasis on transparent information disclosure and ethical business practices reflects the agency relationship between management and stakeholders (Zattoni 231). In the context of the study, potential employees act as stakeholders, seeking assurance and alignment of corporate values through ESG considerations.

Stewardship theory posits that individuals in leadership positions act as stewards, prioritising the best interests of the organisation (Abdullah & Valentine 90). The endorsement of the idea of linking CEO remuneration to the company's ESG performance aligns with stewardship theory. It suggests that participants recognise the importance of aligning executive compensation with broader sustainability goals, reflecting a stewardship perspective where executives are seen as responsible custodians of the company's long-term interests.

The multifaceted considerations identified, including the significance of board diversity, legal and regulatory compliance, and public image, resonate with stakeholder theory. The study reflects the understanding that companies must consider the interests of various stakeholders, including employees, in their governance practices. Stakeholder theory emphasises the need for a holistic approach to corporate governance, considering the diverse expectations and concerns of different stakeholder groups (Abdullah & Valentine 91).

Resource-dependency theory suggests that organisations are dependent on external resources, and the study's emphasis on the impact of external factors, such as legal frameworks and public perceptions, aligns with this perspective (Abdullah & Valentine 92). The acknowledgment of the influence of external governance mechanisms on individuals' perceptions of companies as employers supports the resource-dependency theory. It highlights the interconnected nature of corporate governance and external factors in shaping the attractiveness of a workplace.

In essence, this research contributes nuanced insights that validate and extend the understanding of these key theories, showcasing the relevance and applicability of agency, stewardship, stakeholder, and resource-dependency theories in explaining the dynamics of corporate governance and their impact on potential employees' decisions in selecting a company.

6. Conclusion

To sum up this study on corporate governance and its influence on the perception of workplace popularity, the main insights will be summarised. In short, the impact of corporate governance structures becomes apparent on many levels, revealing the interconnectedness of internal mechanisms, such as CEO remuneration and board diversity, with external factors like legal frameworks and public image.

One of the main insights of this research is the importance to adopt a comprehensive and strategic approach to governance. The feedback on governance practices in shaping workplace perceptions suggests that there is a need for a holistic alignment of internal and external governance mechanisms, portraying an organisational commitment that extends beyond financial metrics to encompass ethical, sustainable, and socially responsible practices.

The implications of this thesis extend beyond theoretical considerations, as they contribute to a better understanding of people's preferences and needs when choosing a workplace. As companies navigate the evolving landscape of employment expectations, strategic strengthening of governance structures appears to be one of the main factors of increasing popularity amongst potential candidates. Furthermore, potential job candidates are motivated by considerations beyond financial remuneration, such as transparency, ethical conduct, and inclusivity. Therefore, organisations that actively incorporate these principles into their governance practices are more likely to be seen as employers of choice.

In conclusion, the numerous different factors explored in this research help to emphasise the crucial role played by corporate governance in shaping the attractiveness of a workplace. As organisations traverse the complexities of the modern corporate landscape, the strategic integration of comprehensive governance practices emerges not only as a competitive necessity but as a cornerstone for fostering a workplace environment that resonates with the diverse and discerning expectations of the contemporary workforce.

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8. Table of Figures

9. Abstract English

This research explores the nexus between corporate governance and the choices made by potential employees, addressing a research gap in existing literature. With a focus on internal mechanisms like CEO remuneration and board diversity, and external factors such as legal frameworks and public image, the study investigates how governance practices shape perceptions of organisations as employers. Utilising a questionnaire-based survey with over 100 participants, the research unveils the interconnected nature of these governance factors, emphasising the need for organisations to adopt a holistic approach to enhance their standing in the competitive employment landscape. The study contributes to a deeper understanding of organisational dynamics, offering actionable insights for leaders aiming to strategically strengthen governance practices in response to the evolving expectations of the contemporary workforce.

10. Abstract German

Die vorliegende Studie untersucht den Zusammenhang zwischen Corporate Governance und den Entscheidungen potenzieller Arbeitnehmer. Es wird somit eine Forschungslücke in der bestehenden Literatur geschlossen. Die Studie untersucht, wie Governance-Praktiken die Wahrnehmung von Unternehmen als Arbeitgeber beeinflussen. Dabei liegt der Schwerpunkt auf internen Mechanismen wie der Vergütung des Vorstandsvorsitzenden und der Vielfalt im Aufsichtsrat sowie externen Faktoren wie rechtlichen Rahmenbedingungen und dem öffentlichen Image. Die Studie zeigt anhand einer fragebogengestützten Umfrage mit über 100 Teilnehmern die Verflechtung dieser Governance-Faktoren auf. Es wird unterstrichen, dass Unternehmen einen ganzheitlichen Ansatz verfolgen müssen, um ihr Ansehen in der wettbewerbsorientierten Beschäftigungslandschaft zu verbessern. Die Studie trägt dazu bei, ein tieferes Verständnis für die Dynamik von Organisationen zu erlangen und bietet Führungskräften umsetzbare Erkenntnisse, um Governance-Praktiken strategisch zu stärken und den sich entwickelnden Erwartungen der heutigen Arbeitnehmer gerecht zu werden.

11. Appendix

The following pages show the print version of the only questionnaire that was used to gather relevant data for this study.

MA Survey - Corporate Governance

* Indicates required question

Thank you for participating in this survey. Your feedback is essential to help me complete my master thesis. Please provide your honest opinions and experiences.

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Participant Information

1. Please indicate your age below. *

   Mark only one oval.

   - 20-24
   - 25-29
   - 30-34
   - 35+

2. Please indicate your gender below *

Mark only one oval.

- ( ) female
- ( ) male
- ( ) non-binary
- ( ) Other: ________________

3. Please indicate your highest degree completed. *

Mark only one oval.

- ( ) Highschool
- ( ) Bachelor's Degree
- ( ) Master's Degree
- ( ) PhD or higher

4. What is your current employment status? *

Mark only one oval.

- ( ) Employed full-time
- ( ) Employed part-time
- ( ) Unemployed/Seeking employment
- ( ) Student
- ( ) Other: ________________

Corporate Governance Mechanisms

Thank you for providing this information. It will be treated confidentially and not used beyond the scope of this study. In the following section, please honestly answer all questions to your best knowledge.

5. How familiar are you with the concept of corporate governance? *

Mark only one oval.

- Not familiar at all
- Slightly familiar
- Moderately familiar
- Very familiar
- Expert level familiarity

In case you are not fully familiar with the term corporate governance yet, I want to provide you w a brief definition.

Corporate governance refers to the system of rules, practices, and processes by which a compa is directed and controlled.
[Corporate Governance]

6. In your opinion, how important is corporate governance for a company's overall success? *

Mark only one oval.

- Not important at all
- Slightly important
- Moderately important
- Very important
- Extremely important

Information Disclosure

Please consider the following examples before answering the next question.

Examples for transparent information disclosure:

Transparent disclosure of wages to allow employees to understand the company's pay structure and promote a sense of fairness and trust among employees.

Openly sharing decision-making processes to foster a culture of inclusivity and to empower employees to contribute their ideas and perspectives.

Providing clear information about promotion criteria and opportunities to help employees see a clear path for career advancement, enhancing their commitment to the company.

7. Do you believe that transparent information disclosure by a company, such as disclosing wages, decision-making processes, and promotions, influences its popularity as a workplace?

   Mark only one oval.

   - Strongly Disagree
   - Disagree
   - Neutral
   - Agree
   - Strongly Agree

8. How much do you think a company's environmental, social, and governance (ESG) ranking affects its attractiveness as a potential employer?

Mark only one oval.

- Not at all
- To a small extent
- Moderately
- Significantly
- Extremely

Perception of Workplace Popularity

Thank you for providing this information. The next section will focus on a company's popularity a a workplace. Please share your honest opinion.

9. In your opinion, what factors make a company popular as a workplace? **Select the three options** that are most important to you.

Tick all that apply.

- [ ] Competitive salary and benefits
- [ ] Work-life balance
- [ ] Career growth opportunities
- [ ] Company culture and values
- [ ] Diversity and inclusion initiatives
- [ ] Positive reputation in the market
- [ ] Flexible work arrangements
- [ ] Employee engagement programs

10. Have you ever considered a company's corporate governance practices before applying fo a job there?

Mark only one oval.

- Yes
- No

Internal Corporate Governance Mechanisms

Thank you for providing this information. The next section will address different mechanisms of corporate governance in more detail. Please answer all questions honestly.

11. How important is board diversity in influencing your perception of a company as a potenti employer?

board diversity in this context = diversity of board members regarding age, gender, background and whether they are insiders or independent board members

Mark only one oval.

- Not important at all
- Slightly important
- Moderately important
- Very important
- Extremely important

12. How likely are you to prefer working for a company with strong corporate governance practices?

Mark only one oval.

- Very unlikely
- Unlikely
- Neutral
- Likely
- Very likely

13. Should CEO remuneration be linked to the company's environmental, social, and governance (ESG) performance?

Mark only one oval.

- Yes, it promotes responsible corporate behavior and aligns incentives with sustainable practices.
- No, CEO compensation should be based solely on financial performance to maximize shareholder returns.

14. To what extent does the transparency of CEO remuneration influence your perception of the company as a desirable workplace?

Mark only one oval.

- Strongly negative influence
- Somewhat negative influence
- Neutral/No significant influence
- Somewhat positive influence
- Strongly positive influence

15. Does the ownership structure of a company (e.g., family-owned, publicly-traded, private equity-backed) influence your decision to consider it as a potential employer?

Mark only one oval.

- Yes, significantly
- Yes, to some extent
- No, not at all

16. To what extent do you believe that ownership concentration (e.g., a company with a dominant shareholder) can impact corporate governance practices and workplace dynamics?

Mark only one oval.

- Strongly negative impact
- Somewhat negative impact
- Neutral/No significant impact
- Somewhat positive impact
- Strongly positive impact

External Corporate Governance Mechanisms

Thank you for providing this information. The final section will focus on external corporate governance mechanisms. Please answer all questions honestly.

17. To what extent do you think the legal framework and regulations governing corporate behavior impact a company's reputation as an employer?

Mark only one oval.

- Not at all
- To a small extent
- Moderately
- Significantly
- Extremely

18. To what degree does a company's commitment to ethical business practices, as demonstrated by external audits or certifications, influence your willingness to work for them?

Mark only one oval.

- Not at all
- Slightly
- Moderately
- Significantly
- Extremely

19. How much do you think a company's public image and reputation in the media impact its popularity as a workplace?

Mark only one oval.

- Not at all
- To a small extent
- Moderately
- Significantly
- Extremely

20. Have you ever avoided applying to a company due to negative media coverage or public controversies surrounding its corporate governance or workplace practices?

Mark only one oval.

- Yes
- No

Corporate Governance Mechanisms

Thank you for providing this information. Please answer the final two questions honestly.

21. To what extent have your perceptions of a company as an employer been influenced by CEO remuneration, ownership structure, or external corporate governance mechanisms?

Mark only one oval.

- Not at all
- To a small extent
- Moderately
- To a large extent
- Significantly

22. How important do you think it is for companies to strengthen their corporate governance practices to become more appealing workplaces?

Mark only one oval.

- Not important at all
- Slightly important
- Moderately important
- Very important
- Extremely important

Thank you for completing the survey! Your valuable feedback will contribute immensely to the success of this study. If you have any additional comments or suggestions, please feel free to share them with me. Your input is greatly appreciated.

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