CORPORATE GOVERNANCE SYSTEMS AND SUSTAINABILITY: CSR AS A FACTOR OF CONVERGENCE BETWEEN OUTSIDER AND INSIDER SYSTEMS

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Abstract

In an era of increasing capital mobility and globalisation, the growing integration of financial markets seems to be a key factor of corporate governance convergence. One of the most striking differences between corporate governance systems of different countries is the dissimilarity in the firms' ownership and control that exists across countries. According to the degree of ownership and control, corporate governance systems can be distinguished in outsider systems (characterised by wide dispersed ownership) and insider systems (characterised by concentrated ownership). The transition from a governance approach founded on the shareholder view and oriented to the optimization of economic performance to a policy founded on the stakeholder view and oriented to the appreciation of the interdependence among economic, social and environmental responsibility, seems to be a factor of *de facto* convergence between outsider and insider systems of corporate governance. The main finding of this chapter is that the effective integration of CSR, sustainability and leadership makes easier the convergence between insider and outsider corporate governance systems. Leadership starts at board level. Corporate social responsibility (CSR) and sustainability require good corporate governance, grounded on stakeholder engagement, fairness, transparency and accountability. All these principles are related with more externally focused boards and determine a governance approach directed to the growth of sustainable value. In light of the above, this chapter will consider how the social responsibility and the role of the leaders (CEOs, Board of Directors, managers, etc.) can determine a governance approach directed to the growth of sustainable value over time. This is possible through the exploitation of opportunities and the economic and social risk management with which the companies should compete. The achievement of sustainability leadership requires significant changes in the operational guidelines and critical factors for company's success and it imposes the improvement of the internal control systems intended to provide essential support for responsible governance. Therefore, leadership aiming at sustainability (regardless of the corporate governance system) requires CSR to be transferred from top management to the entire organisation, increasing the ability to manage complexity with respect to articulated goals. So, the corporate social responsibility, if properly realized, tends to be a factor of substantial convergence between the different existing systems of corporate governance.

Keywords: Sustainability; Leadership; Convergence; Corporate Governance; Insider and Outsider Systems; Corporate Social Responsibility; Internal Control Systems

Although the chapter is the result of a team effort, Daniela M. Salvioni can be considered the author of Sessions 1, 2 and 6, Simona Franzoni the author of Session 4, Francesca Gennari the author of Sessions 3 and 5.

1. INTRODUCTION

Sustainability leadership emphasizes the change that companies which want to be leaders in sustainability must deal with, accentuating the central role of corporate governance bodies as promoter and guarantor of the change's effectiveness.

Corporate social responsibility (CSR) and sustainability require good corporate governance, grounded on stakeholder engagement, fairness, transparency and accountability. All these principles are related with more externally focused boards and determine a governance approach directed to the growth of sustainable value over time. This focus of boards worldwide has increasingly shifted to excellence every corporate governance systems.

Sustainability leadership must penetrate the entire organization, but the first impulse of it derives from the Board of Directors. Therefore, the most important actors in the process of achievement of sustainability leadership are the board's members.

Leadership starts at board level. First of all, the executive members of the board must recognize the principles of sustainability share these principles with non-executive members and transfer them in the long-term direction of the organisation. In fact 'A leader is one or more people who […] focuses the follower(s) to the organization's mission and objectives […] in a concerted coordinated effort to achieve the organizational mission and objectives' (Winston and Patterson, 2006).

Board's members must recognize the importance of the transition from a strategic approach oriented to the optimization of economic performance favouring shareholders to a policy oriented to the appreciation of the interdependence among economic, social and environmental responsibility satisfying stakeholders' expectations.

Cadbury (1993) states that " [...] It is the ability of boards of directors to combine leadership with control and effectiveness with accountability that will primarily determine how well [...] companies meet society's expectations of them". The transition from shareholder view to stakeholder view requests new managerial skills, because of the change in significant variables to meet society's expectations, but at the same time it seems promoting a substantial convergence about objectives, processes, cultures, competencies and behaviours among the different corporate governance systems existing worldwide.

Considering corporate governance as means to favour and lead company's performance, this chapter deems the assertion of CSR and sustainability can represent a significant factor of substantial convergence among corporate governance systems characterizing different countries. In particular our study underlines how policies oriented to CSR principles imply overcoming some divergence in key performance indicators characterizing insider and outsider corporate governance systems in the past.

One of the most striking differences between countries' corporate governance systems is the difference in the ownership and control of firms existing across countries (OECD, 1999). According to the degree of ownership and control, corporate governance systems can be divided into outsider systems (characterised by wide dispersed ownership) and insider systems (characterised by concentrated ownership).

Markets' and information's globalization induced the search of convergence between corporate governance systems, in particular referring to listed companies. This convergence has been promoted by normative and self-discipline interventions focused on the spread of international best practices about corporate governance. Substantial processes of convergence seem to be necessary to complete processes of formal convergence. The main finding of this chapter is that the effective integration of CSR, sustainability and leadership promote the active convergence between insider and outsider corporate governance systems.

In fact, fair settlement of stakeholders' expectations and prevailing objectives about creation of sustainable value tend to determine the overcoming of pre-existing diversities in temporal orientation of financial goals. In particular, the assertion of a strategic orientation based on binomial economic dimension-sociability emphasises the link among company's success, multidimensional significant variables and maximization of economic results in medium and long-term.

In light of the above, the chapter is structured as follows. The second section outlines the change in corporate governance systems related to CSR and sustainability leadership and it provides a framework for understanding the role of key stakeholder in this change.

The third section describes the interrelation between corporate governance and corporate social responsibility, emphasizing characteristics that corporate governance bodies should have to effectively assuming the role of change promoter towards sustainability leadership.

The fourth section explains the relations among leadership, internal control systems and corporate performance, for the effective implementation of sustainable leadership. The achievement of leadership sustainability requires significant changes in the strategic and operational guidelines, broadening critical success factors deemed relevant and imposing the refinement of the internal control systems intended to provide essential support for obtaining conscious governance and achieving corporate performance (economic and socio-environmental).

The fifth section summarises the role of CSR as a factor of convergence between outsider and insider corporate governance systems.

The last section of the chapter contains our final considerations on the relationship among globalization, corporate governance effectiveness and the leading role of CSR as a factor of convergence between outsider and insider systems of corporate governance.

2. CORPORATE GOVERNANCE AND SUSTAINABILITY LEADERSHIP: THE ROLE OF KEY STAKEHOLDERS

For a long time, orientation towards shareholders and profit maximization (Berle and Means, 1932; Friedman, 1962; Jensen and Meckling, 1976) have dominated the most of companies in industrialized countries. This behaviour was particularly emphasized in Anglo-Saxon big corporations, characterized by a high openness towards risk capitals market, clear separation between ownership and management, one-tier corporate governance systems and control functions exercised by markets (outsider or market-oriented systems).

For listed companies, a leadership focused on economic responsibility in favour of shareholders implies differences between outsider and insider corporate governance systems. This with reference to the diverse concentration in ownership and the connected diverse degree of separation between ownership and control prevailing in each one of the two systems.

In the outsider systems, the common high dispersion of share capital tends to associate the corporate success with a leadership oriented to the profit's maximization, with particular attention to the short-term, with the aim to obtain positive judgments by the market concerning the actions of boards characterized by a high independence. In this context, shareholders are asked to appreciate, usually once a year, the governance effectiveness referring to their expectations about short-term remuneration and their approval conditions the board members' appointment and the shares' market value. So, "the focus in this type of a system can be excessively short-term, reducing overall investment to a level lower that is considered efficient" (OECD, 1999).

In the insider systems, instead, the high capital's concentration among majority shareholders causes their frequent engagement in management, often as executives, and determines governance oriented to the maximization of the value creation in the long-term. In this situation, leadership practiced by the board is strongly influenced by the majority shareholder's behaviour, because its lasting participation in ownership tends to reflect in the maximization of economic performance over time.

Hence, the triumph of shareholder view emphasises the dominance of economic responsibility to satisfy financial expectations of shareholders. However, the different characteristics of ownership structure (Morck *et al.*, 1988; McConnell and Servaes, 1990) and the diverse ownership engagement in the board leadership structure (Maassen, 2002; Leblanc, 2004; Solomon, 2007) that characterize outsider and insider systems tend to determine factors of substantial divergence for companies working in the two systems. In particular, divergences in business strategy tendency are observed, with consequent differences in key performance indicators with reference to time orientation.

The latest arise of new concepts referring to sustainable development and stakeholder relation management (Steurer, Langer, Konrad and Martinuzzi, 2005; Cadbury, 2006; Elkington, 2006) redefines the role of companies in society. In fact, a wide vision of responsibility based on appreciation of links between long-lasting company's success and fair settlement of stakeholders' expectations is established, with consequent changes in terms of spirit of governance.

The acceptance of CSR and sustainability as important business performance indicators does not mean that the creation of value and the adequate shareholders' remuneration are less important. Vice versa, the interdependence among stakeholder relation management, economic and socio-environmental responsibility, results (economic and not economic ones), capability to obtain consents and resources should be opportunely emphasized. In fact, the capability to create fiduciary relations with all stakeholders increases the potentialities of value creation for shareholders over time, by means of opportunities' exploitation and economic, social and environmental risk management (Esty and Winston, 2008; Salvioni and Astori, 2013).

The assumption of a leadership directed to the effective participation in a more resources-efficient, environment-oriented and competitive economy involves relevant changes in the complexity of relationships with significant stakeholders (shareholders, employees, investors, suppliers, customers, competitors, public administration, community and environment). At the same time, knowledge and Information Technology underline the potential growth of diffusion in information and comparative analysis by stakeholders.

The successful companies are working towards the adoption, maintenance and reinforcement of governance systems that are coherent with international best practices standards and capable to manage the complexity of business and significant conditions for sustainable development. In this sense, the effectiveness of governance is greatly influenced by policies that emphasize the principles of global responsibility, positive and fair interaction with stakeholders, as well as respect of the environment.

The growing importance of a governance oriented to global responsibility and stakeholder relation management leads to a greater attention for principles and values that dominate external and internal relations and to innovation of processes that guarantee a systematic, coordinated, effective and efficient orientation in the entire organization. In this context, the engagement of significant stakeholders is crucial for the definition of strategies and goals that create the conditions for lasting success.

Board's members have the task of planning the change toward sustainability according to a global strategy and priority objectives, promoting the spreading of a sustainability culture in the organization and its operational mechanisms so as to guarantee the effective achievement of sustainability.

The assumption of sustainability leadership assumes the appreciation of stakeholder view (Freeman, 1984; Evan and Freeman, 1988; Donaldson and Preston, 1995; Friedman and Miles, 2002; Freeman, Martin and Parmar, 2007; Miles, 2012), the selection of significant stakeholders (key stakeholders) and the development of paths focused on stakeholders engagement and approval of their expectations; the rational and fair transfer of expectations in strategies; the transfer of leaders' tendencies in management behaviours; the assessment of coherence among purposes, goals and results towards the optimization of performances and inter-companies relations.

In fact, stakeholders' engagement is a necessary condition for the achievement and sharing of values which are significant for responsible and sustainable governance. In this context, the sustainability leadership creates the prerequisites for behaviours' coordination and standardization and this is an asset determining company's success. In particular, the internalization of values and principles shared by leaders and organization simplifies the correct realization of governance processes, it promotes the adoption of an effective and efficient management approach, and it facilitates the creation of positive relations between company and stakeholders and the risk reduction (Salvioni, 2010; Salvioni, Astori and Cassano, 2014).

The acceptance of CSR and sustainability as important business performance indicators assumes a board leadership capable to manage the complexity along the 'Triple Bottom Line'. This situation requests significant changes in management and, at the same time, it promotes the substantial convergence between insider and outsider systems with regard to goals in terms of creation of sustainable value (Salvioni and Gennari, 2014).

These changes primarily regard the following:

- The appreciation of a governance vision which is socially responsible, based on effective stakeholders engagement processes. This vision must be focused on the integration between leadership and organizational decisions and corporate governance and internal control systems which are able to promote the potential creation of sustainable value;

- the development of control systems that are fully closed to goals' evolution and that enable risks monitoring with regard to different dimensions of responsibility;

- The change in the variables to be monitored, with a greater appreciation of sustainability culture and critical factors for the optimization of relations with stakeholders.

The previous considerations emphasize the important role of corporate governance bodies for the effective integration among CSR, sustainability and leadership. This integration assumes the promotion of active behaviours and manners to engage all key stakeholders. At the same time the emphasis on CSR principles requires a significant change in the long-term direction of the organisation to fairly meet society's expectations.

Stakeholders' expectations are economic and socio-environmental ones. Hence, leaders who adopt socially responsible behaviours must develop abilities to combine the expectations of wide categories of stakeholders in the best way and to satisfy these expectations by means of decisions and actions. The appreciation of cross-relationship between economic and socio-environmental efficacy and efficiency is essential to minimize the risks and to obtain company's success in the long-term.

Companies inspired by CSR tend to the creation of sustainable value, as a guarantee for their lasting vitality. This situation induces reconsideration in terms of governance orientation, interaction between boards and organization, key variables for the performance optimization. In this sense, pressure towards a substantial convergence between outsider and insider corporate governance systems can be observed.

3. INTERRELATION BETWEEN CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY

Since the 1960s the relation between corporate governance and corporate social responsibility has been given great attention (Jo and Harjoto, 2012).

According to the European Commission, the CSR is defined as 'the responsibility of enterprises for their impacts on society. [...] To fully meet their corporate social responsibility, enterprises should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders, with the aim of: maximising the creation of shared value for their owners/shareholders and for their other stakeholders and society at large; identifying, preventing and mitigating their possible adverse impacts'(EU COM(2011) 681 final).

This definition asserts the assumption of a concept of global responsibility that is referred to all governance dimensions on one hand and on the other hand, the engagement of wide stakeholders' categories is considered a critical factor for the competitive advantage and risk minimization. In fact, the emphasis on interdependence among different stakeholders' requirements gives value to company's capability to better anticipate changing opportunities, to reduce risks and to take advantage of these capabilities for the long-term success. In this situation the capability of the board of director to identify factors of company's success which are linked to the expectations and satisfaction of wide stakeholders' groups is critical.

Therefore, corporate sustainability is closely related to the concepts of corporate social responsibility (CSR) (Carroll 1999; Dahlsrud 2008; European Commission 2011): sustainability does not mean sacrificing shareholders' interests to the benefit of other stakeholders, but it implies the adoption of a management orientation that is able to increase the potentiality of value creation in the long-term, balancing shareholder value creation with stakeholder value protection (Law, 2011). In fact, companies should safeguard the interests of all who contribute to the general value creation (Rajan and Zingales, 1998); this contribution represents the specific investment that a stakeholder decides to make and gives a legitimate or moral right to part of the value created (Blair, 1995).

Effective stakeholder engagement processes are based on commitment of corporate governance bodies and on integration between decisions of leaders and day-to-day activities, with the aim to promote a real CSR culture. In this context, codes of conduct and codes of ethics represent practical CSR tools to spread the shared values of social responsibility, inspired by the respect and the protection of the interest of all stakeholders whom the company interacts with, at all organizational levels. The link between CSR values and management processes is very strong and emphasizes the importance of the alignment among board's strategies, organization's values and everyday practices (Painter-Morland, 2006). Board members should be aware that they cannot sit down at their desk and draft an ideal framework for the creation of corporate culture. The last, in fact, originates by shared values that become stronger over time because of the coherence between what the company says and what it does.

Several studies investigate the possible links between corporate governance structure and CSR performance: evidence suggests that simultaneous improvement of each dimension of performance does not depend on a possible improvement in the board's composition and that which really matters is that the board shares in a substantial way the sustainability principles (Ricart *et al.*, 2005; Ayuso and Argandona, 2007; Spitzeck, 2009; Jo and Harjoto, 2015).

So, the focal point of criticism on CSR is the boards of directors, as this key group defines and implements corporate strategy and serves to safeguard the interests of key stakeholders (Mason and Simmons, 2014). In fact, board members first identify relevant stakeholders and must then balance stakeholders' interests, by means of the strategies that include stakeholders' expectations (Wang and Dewhirst, 1992; OECD, 2004; Kakabadse and Kakabadse, 2007).

International interventions of OECD, ICGN, GRI and UN Global Compact go to this direction. Furthermore, at a national level, self-discipline codes often mention the importance of board's independence and stakeholders' engagement.

Direct stakeholders' participation in decision-making processes, their being present in the board, is one of the most effective ways of engaging the stakeholders. This choice can become an important element of the firm's CSR strategy (Ayuso and Argandona, 2007).

Some corporate governance systems provide for the institutionalized stakeholders' presence in the board as a formal mechanism to express their significance for the company (Mitchell and Agle, 1997). Co-determination consists in the attribution of participation right in corporate governance to employees, by means of their representatives in administrative and control organs. This institution characterizes some insider systems (Germany, Austria, The Netherlands, Luxembourg, Denmark, Sweden, Norway, and Finland) with peculiarities depending on socio-economic contexts. In other countries, such as France, the exercise of representation right in corporate governance organs is normally at the company's discretion, but it becomes mandatory in some firm typologies (state ownership and privatised companies). In some other countries, such as Japan, the governance system is centred on work and, even if mandatory rules do not exist, employees and board of directors collaborate due to their cultural background.

Therefore, mandatory rules can be a stimulus for the appreciation of CSR by companies and can also be a factor of crossing traditional difference between corporate governance systems, in particular with reference to possible conflicts of interests among different stakeholders.

However, these compulsory interventions are focused only on some stakeholders groups and the adoption of behaviours formally compliant with rules is not enough to ensure sharing and inclusion of CSR principles into corporate culture. Vice versa, the value of compliance should be embedded in the corporate culture, as a shared principle that guides the behaviour of the entire organisation and constitutes the basis for managing any type of risks connected to global corporate responsibility.

CSR leadership modifies the variables related to decision-making process. In fact, the interdependence among economic, social and environmental responsibilities is emphasised with the aim to fairly optimize all stakeholders' interests. In this sense, the commitment of corporate governance organs in CSR matters favours the implementation of CSR practice in the organization's core strategy and it is crucial for the creation of a sustainability culture that goes beyond the mandatory rules and creates the prerequisites for positive relationships with all relevant stakeholders. So, board's leaders who are oriented to sustainability tend to co-ordinate and foster relationships with both internal and external stakeholders (Maak and Pless, 2006), with the aim to guarantee the creation of value in the long-run and the consequent company's success. Leaders inspired by CSR principles should be as architects who nurture and grow relationships with the stakeholder through continuous dialogue about the organization's strategic objectives and governance issues (Maritz *et al.*, 2011).

Therefore, the effectiveness of CSR requires the sharing of values by leaders and organisation, a leadership based on continuous comparison with complex and multi-dimensional realities, and a leadership approach going beyond the traditional managerial talent. In particular, a managerial approach should be adopted that devotes great attention to the principles and values that govern internal and external relations, fosters the innovation of processes for the spreading a coordinated, effective and efficient orientation toward sustainability.

4. LEADERSHIP, INTERNAL CONTROL SYSTEMS AND CORPORATE PERFORMANCE

Sustainable leadership derives from responsible decisions that have been perfected at a corporate governance body level but that should permeate the entire organisation. The behaviour of all internal stakeholders within the corporate system (corporate governance bodies and members of the organisations) should be co-ordinately targeted at the creation of sustainable value.

The board of directors, executive directors, managers and employees/staff are required to operate continuously in accordance with effectiveness and efficiency, taking an active part in the formulation of decisions (strategic and operational) and in their implementation, to maintain a balance between all the interests that converge in the company. In this context, the presence of sustainable leadership-oriented staff and their motivation are essential to the creation and development of design and operational teams capable of dealing collectively with the challenge of corporate success. A participatory leadership style tends to encourage the sharing and interiorization of goals (Schein, 2010), with ample opportunity for the adoption of behaviour-based integration between economic and socio-environmental performance.

The achievement of leadership sustainability requires significant changes in the operational guidelines, broadening critical success factors deemed relevant and imposing the refinement of the internal control systems intended to provide essential support for obtaining conscious governance. Leadership aiming at sustainability, therefore, requires CSR to be transferred from the corporate governance bodies to the entire organisation, increasing the ability to handle complexity with respect to the goals to pursue and to prevent and pilot the large series of business risks, particularly those related to environment, safety and future sustainability.

In this regard, it seems appropriate to point out that integration of responsibilities along the triple bottom line, supported by appropriate control systems to foster sustainable culture throughout the organisation, tends to allow for more effective risk management and to increase the ability to limit the negative effects of the same.

The need to identify and manage critical elements underlines the importance of focussing on the development of an internal control system that enables to monitor the risks and the dissemination of a positive approach to reporting and the direction of the same within the organisation.

Internal control systems that are designed to take advantage of opportunities, promptly signalling the uncertainty of the defined phenomena, acting and reacting to threats, ensuring a coordinated and systematic approach to risk, all ensure that one can maintain one's own competitive advantage in an increasingly open, dynamic and uncertain environment. Therefore, the structural and operational characteristics of control processes must ensure the continuous monitoring of the factors that are critical for company success and the proper recognition of the relevant variables for their management, in compliance with the optimisation of economic and social-environmental performance.

The corporate governance body defines the guidelines of internal control in line with the company's needs, with existing regulatory constraints and with internal and external complexity, in order to achieve an appropriate distribution of responsibilities in all managerial behaviours. Internal control is then delegated to specific dedicated bodies (internal control systems manager, internal auditor, risk manager, controller, compliance officer, etc.) but envisages the involvement of the operational management and of the entire organisation, the behaviour of which determines the timing and means to achieve the objectives.

Therefore, the integrated internal control processes can be summarised as being aimed at checking the validity of the adopted procedures; the behavioural transparency and harmony between indications of responsibility and operational processes (internal auditing); the risk management of the company (risk management) and its compliance with rules, regulations, procedures and internal codes (compliance control and supervisory); and at orienting organization towards the realization of strategic select policies in a coordinated way, to responsibly meet the expectations of stakeholders (management control) (Salvioni, 2010). This concerns direct mechanisms aimed at fostering the transfer of corporate governance bodies' strategies into operational behaviours, to ensure the continued achievement of the conditions enabling achievement of long-lasting business success, through the effective management and monitoring of critical elements.

The assertion of a sustainable leadership broadens the traditional framework for the planning of internal control activities. Business success is no longer only based on economic performance criteria, but is connected to the optimisation of environmental and social performance (Székely and Knirisch, 2005). Sustainable companies, therefore, determine their own strategy with reference to the three aforementioned dimensions of performance, according to the logic of global responsibility and consequently, the objectives are divided into medium- to long- and short-term, and processes are aimed at ensuring effective and efficient implementation.

The critical factors in business success, therefore, register significant changes, with the progressive acknowledgement of the critical role of specific intangible components (Franzoni, 2013) associated with the proper exercising of responsibility at all levels. Consequently, internal control systems should be re-designed on the basis of any subsequent changes made in relevant variables and the spreading of a culture of sustainability takes primary importance.

Indeed, the sustainable growth of the company depends on its ability to identify the significant variables that may affect the successful integrated management of corporate responsibility and to intervene seeking to govern the critical factors that determine success.

Direct interventions to implement governance geared towards sustainability, at first, involve an adequate appreciation of the intangible asset of the company. In order for a globally responsible behaviour to produce benefits, intangible resources should be adequately directed and controlled so as to create value and help in the transfer of top management strategies into organisational behaviour, and this in particular as regards organisational capital, human capital and relational capital. The following should be taken into consideration:

- Organisational capital expresses the quality of a company, associated with variables such as corporate values, internal culture, policies and business strategies, organisational structure, business processes and information systems;
- Human capital is the quality of the individuals in a company, due to a set of variables that influence behaviours and results, including the level of education of the employees, their skills and expertise, their qualifications and training;
- Relational capital expresses the quality of relations connected directly to the involvement of stakeholders. In this regard, factors such as the following emerge as relevant: shared values and rules of conduct, the value of the brand and the reputation in the various markets of interaction.

Achieving sustainable leadership therefore requires specific intangible components to grow as expected so as to lay the ground for effectiveness. In this event, the variables to be monitored should be re-defined and the monitoring parameters and related information systems should be adapted.

Therefore, control systems effectiveness is significantly grounded in the observation of dominant critical factors and is still primarily affected by the spread of the culture of sustainability at all levels of the organisation. Culture conditions all corporate behaviour, determining the conditions for internal sharing and the potential of obtaining consent.

The existence of a strong sustainability culture which is shared by the corporate governance bodies and the entire organisation is therefore a critical element for social interaction and optimisation of performance. Consequently, when designing a control system, the following actions cannot be omitted: analysis of the existing culture, assessment of the ability of the control activity to instil the conditions for corporate responsibility and to contribute to create values which are consistent throughout the entire organisation; verification of optimality of cultural growth processes activated by the company and their constant coherence with the guidelines set forth by corporate governance bodies.

Sustainable leadership thus enhances managing variables that have long been neglected, but that are essential for the coordination of all organisational behaviour. These variables affect the design of effective internal control systems, guiding integration and determining the essential conditions for the transfer of corporate governance guidelines into the behaviour of the entire organisation.

Failure to transfer the principles of sustainability into the various management tasks can disrupt the correct implementation of the decisions of corporate governance bodies, to the detriment of leadership effectiveness. An effective and coherent design of control systems ensures the proper dissemination of the principles of sustainability in all organisational behaviour, optimising the economic and socio-environmental performance.

In summary, the presence of strong and shared values, the fair reconciliation of all expectations and protection of the environment are all aspects that facilitate the coordination between corporate governance bodies and the organisation as well as the effectiveness of the message sent. In this context, the conditions of fairness, transparency and the ability of leaders to involve the various stakeholders, on whom the development of the strategic plan pursued depends, are all of primary importance. Therefore, the adoption of sustainability-oriented governance requires the internal control systems to be re-designed in relation to the changes in the complexity of the variables under observation, to ensure effective guidance of all behaviours towards the co-ordinated achievement of a performance aimed at improving the creation of sustainable value.

5. CSR AS A FACTOR OF CONVERGENCE BETWEEN OUTSIDER AND INSIDER SYSTEMS

Corporate approach towards the creation of sustainable value is a source of global competitive advantage, by means of the overtaking of traditional division between short-term profit and long-term value. Sustainability leadership, because of the combined consideration of economic and social dimensions, tends to align companies' behaviours independently from financial markets' characteristics, shareholders base composition (conditions differentiating insider and outsider systems) and relations between corporate governance bodies (conditions differentiating one-tier and two-tier systems).

According to several scholars, a gradual path of convergence in corporate governance systems is occurring (Carati and Tournai, 2000; Mallin, 2002; Aguilera and Jackson, 2003). The events of convergence between outsider and insider systems can be observed according to these dimensions (La Porta *et al.*, 2000; Gilson, 2004; Khanna *et al.*, 2006; Yoshikawa and Rasheed, 2009; Lazarides and Drimpetas, 2010): convergence *in form* or *de jure* and convergence *in function* or *de facto.*

Convergence *in form* or *de jure* refers to convergence of rules at country level, whereas convergence *in function* or *de facto* refers to corporate behaviours. Both phenomena have accelerated because of changes in traditional competitive environment related to globalization that determined the redefinition of responsibility relations among subjects belonging to economic system.

Referring to *de jure* convergence, national systems are encouraged to the production of rules inspired by high-quality corporate governance standards and principles (e.g. OECD Principles on Corporate Governance, UN Global Compact principles, UE Papers). In fact, these standards about good governance condition, on one hand, national legislations and, on the other hand, the governance practices voluntary adopted by companies to adequately compete on global markets.

Interventions by international bodies focuses also on relations between CSR and corporate governance structure, sharing the idea that a systemic and not occasional approach on CSR requires a strong commitment by leaders.

UN Global Compact Framework recommends the board's commitment in the definition of sustainable strategies: the first condition to participate to Global Compact initiatives is the company's commitment at higher levels and the company's leadership is required to send a clear message that shifting towards sustainability is a strategic priority (UN Global Compact, 2014).

Management engagement is considered crucial not only for strategies about sustainability to be realized in the framework global projects in the long-term, but also for the creation and strengthening of corporate culture inspired to sustainable principles at all levels.

'[…] Consequently, businesses that integrate sustainability into their strategies and operations are increasingly finding themselves in positions of long-term strength. Enhancing this understanding of the overlap between public and private interests is key to inspiring more companies to engage and take action.' UN Global Compact (2013), Building The Post-2015 Business Engagement Architecture.

A research ordered by UN highlights that the majority of CEOs of companies adhering to Global Compact considers sustainability important to the future success of their business (93%), a route to competitive advantage in their industry (80%) and an opportunity for growth and innovation (78%) (UN Global Compact-Accenture CEO Study, 2013). The philosophy of sustainability is becoming a critical factor of success due to systemic risks management and capability to catch growth opportunities in a proactive way.

'Corporate sustainability is imperative for business today – essential to long-term corporate success and for ensuring that markets deliver value across society. To be sustainable, companies must do

five things: Foremost, they must operate responsibly in alignment with universal principles and take actions that support the society around them. Then, to push sustainability deep into the corporate DNA, companies must commit at the highest level, report annually on their efforts, and engage locally where they have a presence'. UN Global Compact, Guide to corporate sustainability, 2014.

On February 2013 the European Parliament adopted a resolution in which the importance of a commitment by the board on CSR matters is stressed. The EU Parliament, in particular, reminds that corporate responsibility must not be reduced to a marketing tool and that the only way to fully develop CSR is to embed it in a company's overall business strategy, implement it and translate it into reality in its day-to-day operations and financial strategy. The EU Commission should encourage companies to decide on a CSR strategy at board level (2012/2098(INI).

Also national interventions can contribute to the diffusion of best practices favouring the intention to imitate phenomena at global level and, so, convergence in corporate governance systems. For example, India puts great emphasis on leaders' engagement in CSR matters. Companies Act (2013) imposes great companies to make a CSR Reporting and to create a CSR Committee composed at least of three directors (two for foreign companies). The CSR Committee is responsible for developing and recommending policies to the board CSR; encouraging the implementation of such policies; monitoring the CSR performance.

De facto convergence can be observed referring to single firm's behaviour, when the same corporate practices are exercised abstract from corporate governance systems' characteristics. *De facto* convergence can stimulate *de jure* convergence; it happens, for example, in case of legislative void or gap and companies autonomously adopt existing best practices to deal with competitive pressure (Gilson, 2001).

Leadership oriented to sustainability at corporate governance bodies' level is a factor of overtaking traditional limits of outsider systems and insider ones. The former are traditionally oriented to the maximization of short-term profit with the aim to obtain positive judgments by the market with regard to the actions of board's members, which are characterized by a high level of independence. The latter, on the other hand, are oriented to the maximization of the value creation over time because of the high capital's concentration and the frequent engagement in management by majority shareholders. The commitment of the board in CSR matters encourages a long-term approach in the value creation with impact on company's objectives and strategies and, as a consequence, promoting the gradual promotion of a sustainability culture in all organizational levels.

As an example, the analysis of 20 companies included in the Global 100 Index[49] for at least 5 years confirms the convergence between insider and outsider systems related to corporate governance based on sustainability leadership (Table 1).

Table 1 shows that, irrespective of corporate governance systems (insider or outsider one), companies that systematically include sustainability matters in their goals and strategies are characterized by:

- long-term business orientation; this refers to the crossing of divergence in time orientation about economic results with the aim to permanently create value satisfying equally ample stakeholder groups. The long-term perspective means that the ultimate goal of an organization is sustainability (Schaefer, 2004, Porter and Kramer, 2006; Mostovicz et al, 2009);
- systematic commitment of the board in sustainability goals also by means of specific committees and chief officers[50];
- belief that a sustainability-oriented board is a change agent (Maritz *et al.*, 2011) able to maintain a constant dialogue with stakeholders and to ensure the dynamic CSR matters are integrated into corporate objectives and business operations.

The effective board's commitment in CSR matters represents the prerequisite for the strategies realization in organizational levels and the consequent obtainment of coherent economic and socio-environmental performance. In this sense the leadership should be intended not only as a hierarchical position, but also as personal engagement of board's members (Mostovicz *et al.*, 2009); in this sense the leadership of the board is based on the CSR values that the members represent. This situation guarantees the company's success over time because the change in leaders' orientation towards sustainability regards mission, vision, company's goals and strategies necessarily involving the entire organization. Therefore, the translation of sustainability values into actual results requires coherent internal control's tools and processes (Salvioni and Astori, 2013).

These mechanisms, favouring the transfer of sustainability concepts in business behaviours at all organizational levels, promote substantial convergence in corporate governance.

The recognition of sustainability principles as corporate cultural factors is differently fulfilled according to company's characteristics and external ties. In fact, corporate governance systems are the result of cumulative processes (Djelic, 1998; Bebchuk and Roe, 1999; Vogel, 2003; Puchniak, 2007; Davies and Schiltzer, 2008): rules about corporate governance structure and processes depend on characteristics of context (financial markets, capital dispersion, importance of banks, etc.) and on the necessity to regulate companies' behaviours (Bebchuk and Hamdani, 2009). Companies' voluntary conducts can pre-empt formal best practices, inciting mutual phenomena of formal and substantial convergence towards the overcoming of traditional corporate governance systems' limits.

[49] The Global 100 Index expresses the "Most Sustainable Corporations in the World" and it is managed by "Corporate Knights Capital", which builds indexing solutions and market-beating portfolios for institutional clients. See www.corporateknights.com.

[50] As Strand states: 'In some cases the Chief Sustainability Officer position was installed temporarily with the specific intent of raising sustainability considerations and related issues on the corporation's strategic agenda, meaning that the removal of the Top Management Team (TMT) position may well be an indicator of its success. In Storebrand, for instance, the TMT position of Executive Vice President (EVP), Corporate Responsibility, held for the 3 years of its existence by Elin Myrmel-Johansen, was put into place in January 2008 and removed in February 2011' (Strand, 2014, p.702).

Table 1. The involvement of company's leadership in sustainable matters

Insider systems	Adidas	[...] want to be successful **in the long run**. We want **to create as much value for all our stakeholders as possible.** As you see, **sustainability thinking** at the Adidas Group is not treated in isolation but **is part of the everyday practice of multiple corporate functions** – integrated into the business model of the Adidas Group. Needless to say, there is room for further strengthening and integrating of sustainability performance measures into our overall performance management. The **Social and Environmental Affairs (SEA)** team is a diverse group of 65 people – engineers, lawyers, HR managers, environmental auditors and former members of non-governmental organizations. The team is organised into three regional teams [...] , as well as the Group-wide functions of Environmental Services and Community Affairs.
	City Developments	**Sustainability [...] is imperative to our long-term viability**. A company-wide **CSR Committee** is responsible for mapping out CSR strategies and measuring key performance. This Committee initiates, drives and monitors various aspects of the Company's CSR practices to ensure these are integrated into our business operations and complement corporate objectives. Above this committee, at the Board Level, is a **CSR & CG Committee** that assumes an advisory role for the Company's CSR strategies. The CSR & CG Committee is chaired by our Deputy Chairman with two independent Directors.
	H&M	We take a **long-term view** on our business and investing in our sustainability means investing in our future. Our **Head of Sustainability** reports directly to our CEO and the responsibility for the implementation of our sustainability strategy is held by our executive management team.
	Kesko	The **Senior Vice President, Corporate Responsibility, Communications and Stakeholder Relations**, a member of Kesko's Group Management Board, is the head of corporate responsibility
	Koninklijke Philips Electronics	With our understanding of many of the **longer-term challenges** our world faces, we see major opportunities to apply our innovative competencies and **create value for our stakeholders**. **Executive Vice President & Chief Strategy and Innovation Officer**. Functions: Group responsibilities: Strategy, Innovation, Design, Sustainability, Accelerate! - Resource to win
	Natura Cosmesticos	Sustainability runs through our entire governance model. The **Sustainability Committee** is an important preparatory discussion forum before decisions are made by Comex, and the issues are also regularly analyzed by the Board. It is overseen by the Sustainability Board, which monitors the execution of the action plans that are run by the various corporate departments.
	Neste Oil	We create **long-term business success**. Sustainability work is steered by the **Senior Vice President, Sustainability and Public Affairs**, who is a member of the Neste Executive Board. The Board of Directors approves policies covering sustainability and monitors how Neste Oil performs in terms of sustainability. The Neste Executive Board is responsible for outlining the company's strategic approach to sustainability and monitoring how sustainability is reflected in business units and support function operations. Matters related to sustainability are reviewed regularly by the Board of Directors, the Neste Executive Board, and the management teams of the Sustainability and HSEQ organization, business areas, and production plants.
	Novo Nordisk	Novo Nordisk has chosen three long-term social targets to support **long-term** financial performance, **balancing responsibility with profitability**, with the aim of creating sustainable value for shareholders and other stakeholders The Board of Directors determines the company's overall strategy and follows up on its implementation, supervises the performance, ensures adequate management and organisation, and as such actively contributes to developing the company as a focused, sustainable, global pharmaceutical company.
	Statoil	[...] by creating **long-term value** for both our shareholders and the societies and economies in which we operate. The **Safety, Sustainability and Ethics Committee** will assist Statoil ASA's (the Company's) board of directors (the Board) in its supervision of the Company's safety, security, sustainability and ethics policies, systems and principle
	Storebrand	It is essential that we are able to take a **long-term perspective**. The Group's corporate sustainability goals are adopted by the Board, and the sustainability scorecard is followed up by the Group's executive management team
	Vivendi	Group's overall performance **over the medium and long term.** Vivendi has a CSR department.
Outsider systems	Agilent Technologies	n.a.
	BG Group	Sustainability is a prerequisite for **long-term performance** and value protection for our shareholders The **Sustainability Committee** of the Board provides direction and oversight of the implementation of the Group's Licence to Operate strategy and provides strategic and operational leadership on HSSE matters
	Centrica	[...] **long-term sustainable value creation for all** of Centrica's **stakeholders**. The Board is responsible for: [...] the Group's corporate responsibility arrangements including health, safety and environmental matters; [...].
	Enbridge	[...]strengthening our company's **longer term future**. The **Corporate Social Responsibility Committee** is responsible for reviewing, approving or recommending to the Board the risk guidelines, policies, procedures and practices relating to CSR matters
	Prologis	Trust and business integrity are critical to the **long-term health** of company. The **Board Governance and Nomination Committee** regularly reviews and develops recommendations for the board regarding corporate governance matters and principles, as well as environmental stewardship and social responsibility matters.
	Sun Life Financial	Our focus on sustainability reflects the **long-term nature of commitments**.
	Suncor Energy	We are going to keep engaging with all of our stakeholders and listening to their concerns as we continue to **develop and pursue long-term goals**. **Environmental, Health, Safety & Sustainable Development (EHS&SD) Committee**
	Unilever	[...] towards our **longer-term goal** of developing a sustainable business. **Corporate Responsibility Committee** reviews and provides input to the Company on the management of current and emerging sustainability matters affecting the Company and provides external and independent oversight and guidance on the environmental and social impact of how Unilever conducts its business. Chief Sustainability Officer.
	Westpac Banking	[...] to support more **sustainable long-term outcomes**. Responsibilities of the Board: [...] considering the social, ethical and environmental impact of our activities and monitoring compliance with our sustainability policies and practices.

6. EMERGING ISSUES

The spread of sustainability principles and a wide concept of responsibility foster, without doubt, a change in relevant corporate performances, modifying business orientation and creating prerequisites for substantial convergence in corporate governance systems.

Sustainable leadership implies a progressive extension of corporate objectives. The traditional governance framework tends to be more complex because of the network of internal and external relations, according with an approach based on information exchange and behaviours optimization with regard to stakeholders' expectations.

Sustainability becomes a formal business driver. This induces to a review of governance tendencies and of interaction between corporate governance bodies and organization. Furthermore, a deep revision of critical variables for performance optimization must be considered.

Assertion and sharing of values that are significant for responsible and sustainable governance are conditions for behaviours' coordination and uniformity, which are important assets for the company's success. In particular, the internalization of values and principles shared by leaders and organization favours the correct exercise of governance, promotes effective and efficient management approach, facilitates the creation of positive relations between company and stakeholders and favours risks control.

Sustainable leadership goes with control structures and processes more and more articulated. In this context the diffusion of ethical values and principles is, at the same time, a factor to be monitored and a requisite for the management effectiveness and the maximization of sustainable value.

Hence, irrespective of characteristics in capital markets and ownership concentration, companies which effectively integrate CSR, sustainability and leadership have modified their corporate policy giving importance to the creation of sustainable values as a condition for their growth and development in the long-term. One of the most important elements of divergence between insider and outsider corporate governance systems, related to the different time tendency to results, decreases.

It is also necessary taking into consideration that globalization - characterized by progressive reduction of differences in space, cultures, information systems, customs and institutions – requests a greater uniformity in corporate governance approaches at global level.

Furthermore, the downfall of barriers among markets and capital circulation, on one hand, increased investors' choices and, on the other hand, highlighted that the creation of value in the long-term can represent an important element for investment risk reduction.

Companies characterized by sustainable leadership can be more attractive for investors, increasing their opportunities in obtaining resources and growth of their capital value. About that, what Larry Fink, BlackRock's Chairman and CEO, said in the Annual Letter to BlackRock's Shareholders of 16/04/2015 appears symbolic. He said: *"This annual report highlights how the platform we've created over time translates into long-term value for clients and shareholders even in the face of global market upheaval. But it also gives us a chance to look toward the future. BlackRock has stayed ahead of the competition over time by thinking long term: building the technology, talent and investment solutions that our clients and shareholders can build on, and that will pay dividends for decades, not just quarters."*

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