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Corporate Governance and Profitability in British Commercial Banks: Conceptual Framework and Research Agenda

Authors:

Augustus Osseo-Asare (augustus.osseo-asarejr@sunderland.ac.uk)
Faculty of Business and Technology, University of Sunderland, Sunderland, United Kingdom

Najat Ishmaiel (bh49lu@student.sunderland.ac.uk)
Faculty of Business and Technology, University of Sunderland, Sunderland, United Kingdom

Juila Janfeshar Nobari (julia.j.nobari@sunderland.ac.uk)
Faculty of Business and Technology, University of Sunderland, Sunderland, United Kingdom

Abstract:

Global corporate misgovernance, irresponsibility, and bankruptcy, over the last two decades continue to stimulate empirical research on how corporate social responsibility (CSR) mediates the cause-and-effect relationship between corporate governance (CG) and corporate profitability (CP). In the context of British Commercial Banks, the exact nature of the mediating effects of CSR on governance-profitability relationship remains ambivalent and under researched. This paper, therefore, aims to clarify the relationship between CG, CSR, and CP, by conducting a systematic review of Agency, Stewardship, Shareholders, Resource-dependency, Institutional, and Stakeholders theories, and critically evaluating the results and findings of 29 prior studies on CG, CSR and CP. We identify 15 common measures for future research: five for CG (board leadership, responsibilities, composition, internal controls, remuneration), five for CP (ROA, ROE, Tobin's Q, share price, market share), and five for CSR (collaboration, institutions, education, climate action, responsible production) across British Commercial Banks. We make significant contribution to knowledge by embedding the 15 measures in the development of a holistic and integrated conceptual framework to underpin a future research agenda. The continuing relevance and implications for commercial bank-specific CG development, Board leadership in the pursuit of profitability, and social responsibility simultaneously are also discussed.

Keywords:

Corporate Governance, Corporate Profitability, Social Responsibility, British Commercial Banks, Research framework, UK.

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Introduction

Since the early 1990s, global financial scandals along with rising number of domestic cases of misgovernance, bankruptcy, and social irresponsibility, continue to drive British Commercial Banks (BCBs) constantly to adapt, renew, reconfigure, and re-create their internal control mechanisms in direct response to the urgent need to adopt good corporate governance (CG) in the pursuit of corporate profitability (CP) (Deloitte, 2024; UKCGC, 2024; Buchetti & Santoni, 2022; Chisnall, 2010; Cadbury, 1992). In the United Kingdom (UK), The Cadbury Report published in 1992 provided initial conceptual insights into the evolutionary trajectory of CG and how it impacts CP (Cadbury, 1992). However, some of the key theories underpinning UK's CG development were developed pre-Cadbury 1992, e.g., Shareholders Theory (Friedman, 1970), Agency Theory (Jensen & Meckling, 1976), Stakeholders Theory (Freeman, 1984), while other theories emerged post-Cadbury 1992, e.g., Stewardship Theory (Davis, Schoorman, & Donaldson, 1997), and Resource-dependency Theory (Pfeffer & Salancik, 2009). In addition, prior studies on UK's CG journey, reveal that the relationship between CG, CP and corporate social responsibility (CSR) remain inconclusive or mixed (Kyere & Ausloos, 2021; Brahma, Nwafor, & Boateng, 2021). More specifically, in the context of British Commercial Banks, the exact nature of the mediating effects of CSR on the governance-profitability relationship remains ambivalent and under researched (UKCGC, 2024; Chisnall, 2010; Adams & Mehran, 2003) – this main gap in research underpins the motivation, rationale, and relevance of this study.

In the UK, empirical research on the cause-and-effect relationship between governance and profitability has risen steadily since the publication of Cadbury's (1992) Report (e.g., Kyere & Ausloos, 2021; Brahma et al., 2021; Shaukat & Trojanowski, 2017). Yet, the search for a critical understanding of how the UK's CG principles and provisions impact the CP of commercial banks remains ongoing (UKCGC, 2024; Buchetti & Santoni, 2022; Brahma et al., 2021; Chisnall, 2010). It is argued that in theory the relationship between CG and CP exhibits commonalities across firms (Buchetti & Santoni, 2022; Sehrawat, Singh & Kumar, 2020; Lawal, 2012); however, such commonalities have not been critically and systematically identified in the UK commercial banking sector (Kyere & Ausloos, 2021; Brahma et al., 2021; Weir & Laing, 2000, 2001). To date, prior studies (e.g., Khan, Al-Jabri, & Saif, 2021; Sehrawat et al., 2020; Shaukat & Trojanowski, 2017; Premuroso & Bhattacharya, 2007; Weir & Laing, 2001), feature misconceptions and misapplications of the relationship between CG and CP. Indeed, to date, empirical research on UK's CG has been conducted on a piecemeal basis, involving few case studies, reference to only a few of CG principles and provisions, and a weak and disconnected evidence from the British commercial banking sector. In this context, the relevance of this paper is two-fold: first, it provides a synthesis of the conceptual debates and the diverse and often disconnected empirical

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findings; and second, it develops a more integrated and holistic conceptual framework for critically researching the relationship between CG, CSR, and CP in the UK commercial banking sector.

The overarching aim of this study in terms of results, is to develop an integrated and holistic conceptual framework to underpin a future research agenda, which seeks to answer the key research question: how does CSR mediate the impact of CG on the CP in British commercial banks? To answer this question, we draw lessons from earlier works on CG, including, Kyere and Ausloos‘ (2021) study of the right CG mechanisms for improving the CP of UK listed firms, Brahma et al.,'s (2021) finding that a positive and significant relationship exists between gender diversity and firm performance, Shaukat and Trojanowski's (2017) work on the monitoring capacity of boards and financial performance of UK listed firms, Sehrawat et al.,'s (2020) findings that audit committee independence and CEO duality have no impact on Tobin's Q, but Board size, managerial ownership have positive impact on Tobin's Q in the Indian context, Khan et al.,'s (2021) work on the resolution to agency problems in the Malaysian context, and Premuroso and Bhattacharya's (2007) work on Net profit margin associated with Board-level technology committees in the USA context. In addition, we operationalise our key research question, by achieving three specific research objectives: a/critically evaluating the theoretical and empirical development of CG in the context of UK Commercial banking, to identify the key challenges and opportunities; b/identifying the commonalities or component measures of CG, CSR, and CP, across UK commercial banks by drawing from a wide range of prior studies but a fragmented body of empirical findings; c/developing an integrated holistic conceptual framework which incorporates the established theories of CG, including, Agency, Stewardship, Resource-dependency, Shareholders, Stakeholders, and Institutional theories. We also hypothesize that, governance impact profitability, and the impact is mediated by CSR. These objectives and the main hypothesis have become increasingly important for two urgent needs: (a) to synthesize extant literature and empirical findings for further development of CG theory; (b) to develop a conceptual framework for a future research agenda grounded in established theories of CG, CSR, and CP which reflects the realities in UK commercial banks. The proposed research agenda would contribute to knowledge in two main ways: a/providing a critical review of the relationship between CG, CP, and CSR in the context of commercial banks; b/the component measures of CG, CSR, and CP identified and the research agenda proposed can be adopted and further developed, thereby adding to knowledge development, encouraging cross-comparison of research findings, and enabling commercial banks to build on the required core competences and dynamic capabilities needed for good CG, thereby helping to sustain their competitive advantages in the domestic and international markets.

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Literature Review and Development of Research Framework

The concept of corporate governance (CG) has two opposite but complementary meanings. The first, is based on a 'narrow view' representing, a 'narrow-based view' (NBV), which defines, describes and delineates CG by focusing on a specific disciplinarity e.g., company law, finance and accounting, corporate management (Sifuna, 2012; Williamson, 2002; Schmidt & Tyrell, 1997). In contrast, the second, is based on a 'broad- or meta- view' representing, a 'broad-based view' (BBV), which is concerned about regulatory policies and practices, and focuses on structures, processes, and mechanisms for influencing, directing, and controlling corporations (OECD, 1999, 2023; Cadbury, 1992). Examples of the NBV in specific disciplines or contexts include: 1/in the field of Corporate and Commercial Law, CG is a system of law and regulatory requirements by which corporations – typically listed firms - are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of management and directors and thereby, mitigating agency risks which may stem from the misdeeds of corporate officers (Sifuna, 2012); 2/in the field of corporate finance and management, a firm itself is modelled as a governance structure acting through the mechanisms of contract (Williamson, 2002). It is important to note that the NBV is an integral part of BBV which in most jurisdictions is presented as the official or authoritative country- or international-level view on CG. Example of a country-level BBV includes Cadbury's (1992) structural view of CG as "the system by which companies are directed and controlled" (Cadbury 1992, p. 15); and example of an international-level BBV includes OECD's (1999, 2015, 2023) relational-structural view of CG as involving relationships between management, board, shareholders and stakeholders and the structure and systems through which the firm is directed and monitored. In brief, the NBV and BBV, demonstrate that the concept of corporate governance is indeed a multi-disciplinary construct, which is best understood within the specific field of study it relates to, thereby avoiding misconceptions and misapplications. For example, in the field of Economics and International Business, CG is essentially concerned about internal operating and control mechanisms for assuring efficient use of capital, ensuring board accountability to shareholders, and attracting patient and long-term capital (OECD, 2023; Turnbull, 1999, 2000; Mason & Simmons, 2014).

We have categorised the key milestones in the UK's corporate governance journey into 4 periods or decades of development. The first decade (1992-2001), started with the publication of Cadbury's (1992) Report, which focused on the financial aspects of governance, and ended, with the publication of the Myners's (2001) Report on how to conduct the relationship between institutional investors and company management (UKCGC, 2024; Hampel, 1998; Greenbury, 1995). During the second decade (2002-2011), the ICAEW launched an initiative to explore the differences between US and UK corporate governance systems, the Companies Act 2006 placed more emphasis on stakeholders' interest, and by the end of

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the decade, the Combined Code was renamed UK Corporate Governance Code (ICAEW, 2024; Financial Reporting Council, 2024; Companies Act, 2006). The third decade (2012-2021), commenced with the FRC placing more emphasis on the "comply or explain" approach to governance. This was followed by the detection of evidence of poor corporate governance at BHS and Sports Direct in 2016, and the publication of the revised UK Corporate Governance Code and the UK Stewardship Code in 2018 and 2020 respectively. The decade ended with the publication of the White Paper on Restoring Trust in Audit and corporate governance in direct response to the collapse of Carillion PLC (ICAEW, 2024; Financial Reporting Council, 2025). Finally, the fourth decade (2022-2031) is still ongoing. It witnessed the launch of FRC's latest UK Corporate Governance Code 2024, interim changes were made to reporting for UK Stewardship Code signatories, and the announcement that the requirement for a declaration of board's effectiveness in relation to material controls would come into force on 1 January 2026 (UKCGC, 2024; ICAEW, 2024; Financial Reporting Council, 2024, 2025).

Given the influential position of UK commercial banks in the global financial or banking system and their role in societal development, the pursuit of profitability is evident in the extensive discussions by theorists in many fields of study, including, finance, banking, economics, accounting, philosophy, sociology, political science, ethics, sustainability, and management (Buchetti & Santoni, 2022; De Wit, 2020; Chisnall, 2010; McElroy, Jorna, & van Engelen, 2008; Gay, 2002; Friedman, 1970). There is no doubt that profitable commercial banks make significant contributions to national economic growth and societal wellbeing, the challenge however is how commercial banks sustain long-term performance, by building and maintaining CG systems based on organisational culture of integrity, openness, respect, equality, trust, value diversity, inclusion, responsiveness and mutual benefit (Buchetti & Santoni, 2022; Chisnall, 2010; Johanson, 2008; Roberson & Park, 2007; Huse, 2005, 2007; Asher, Mahoney, & Mahoney, 2005). In this context the UK's CG system provides a set of codified legal, financial, accounting, managerial and leadership principles and provisions for directing, operating and controlling publicly listed corporations on the London Stock Exchange (LSE) (UKCGC, 2024).

Since the rise of modern commercial banking, the role of banks within nation states has been a central theme in many disciplines and is still evolving with the adoption of online banking, and unresolved controversies about the ethics of banking in less developed economies (Mason & Simmons, 2014). Indeed, the role and significant impact of commercial banks on economic development and societal wellbeing have long attracted controversy amongst a diverse range of stakeholders, including, political parties, community representatives, environmentalists, and the media (Carroll & Shabana, 2010; Carroll, 1991). All these stakeholders take a certain position on the role that commercial banks should play within society and the duties that they ought to shoulder "…the disagreements can be heated, often spilling over from the political arena and negotiating tables into the streets" (De Wit, 2020, p. 597). In the UK and other countries with a free market economy, there is a consensus that commercial banks operating in the private sector, should pursue strategies that ensure economic profitability, but that they have certain corporate social responsibilities that must be fulfilled as well (Denrell, 2004; Erhardt, Werbel, & Shrader, 2003).

Opinions differ sharply regarding the relative importance of CP and CSR, with some researchers arguing that CP is the only purpose that makes economic sense in the long-term, and that the only responsibility of commercial banks in a society is to pursue CP within the boundaries of the law (De Wit, 2020; Blair, 1995; Boatright, 1994; Friedman, 1970). In contrast, other researchers, argue that since commercial banks are both economic and social entities, they also need to fulfil their social responsibilities (Carroll & Shabana, 2010; Carroll, 1991). This means, commercial banks have both legal obligations and moral obligations they need to fulfil simultaneously to survive and grow in the communities they operate in (Huse, 2005, 2007). As such commercial banks must continue to make profit and behave responsibly towards all parties with a stake in the activities of banks, and CP is only a means to fulfil the dual economic and societal duties (De Wit, 2020; Gay, 2002). Indeed, it is not surprising that most commercial banks accept that both CP and CSR are valuable long-term goals to pursue, yet, as long-term purposes, CP and CSR are at least partially contradictory e.g., If banks strive towards profit maximization, shareholders might be very happy indeed, but this will bring commercial banks into conflict with the optimization of benefits for other stakeholders (e.g., Carroll & Shabana, 2010; De Wit, 2020).

Demand for Corporate Profitability: Agency, Shareholder, and Stewardship Theories

It is a given that commercial banks as profit-making organisations must be profitable to survive and grow, in an increasingly competitive global commercial banking industry – where corporate profitability (CP) is measured in terms of higher returns on equity (ROE) than could be realized on a bank deposit (Adams & Mehran, 2003). In the context of Agency, Shareholder, and Stewardship Theories – which explore the conflicting relationship between principals (i.e., shareholders or owners) and agents or stewards (i.e., managers or board) – shareholders unlike managers are rational investors who desire higher ROE (Gay, 2002), as a financial incentive to run a commercial risk to prevent them from buying low risk government bonds (Buchetti & Santoni, 2022). In addition, to offsetting the commercial risks carried by investors, commercial banks with “established track record of profitability, inspires trust among financiers…which makes it much easier to raise new capital, either through borrowing (at more attractive rates) or by issuing new shares” (De Wit, 2020, p. 597). The bank is then able to use the new capital to further its own competitive objectives. This means that commercial banks which have not been particularly profitable in the past and cannot authoritatively project an attractive level of profitability in the future, will find it difficult or virtually impossible to find new financing, which can significantly weaken their market position and undermine their long-term competitiveness (Deloitte, 2024; Buchetti & Santoni, 2022). For publicly traded commercial banks strong profitability is usually reflected in higher share prices, which is not only beneficial to the shareholders at that moment but also makes it easier to acquire other banks and to pay with shares (Adams & Mehran, 2003; Buchetti & Santoni, 2022). Moreover, a high share price is the best defence against a hostile takeover by another bank and the best negotiating chip for a friendly takeover. In addition, retained profit is an important source of competitive power, in the sense that it provides commercial banks with the financial leeway to improve their competitive positions (Deloitte, 2024; Buchetti & Santoni, 2022).

From the perspective of Agency theory, when agents (managers) and principals' (shareholders') interests come into conflict, it gives rise to a principal-agent problem that results in self-serving behaviours, mismanagement, misgovernance, inefficiencies, and ultimately loss of corporate profitability (Gay, 2002; Agrawal & Knoeber, 1996). This view receives support from Shareholder theorists, who argue that because firms belong to shareholders as owners, managers (agents) should act in the best interests of shareholders (principals) (Gay, 2002; Jensen & Meckling, 1976). Similarly, Stewardship theorists, argue that managers (agents) are also stewards, in the sense that they have a duty of care which collectively motivates them to achieve the tasks and responsibilities entrusted to them by shareholders (principals or owners) of their organisations (Gay, 2002; Davis et al., 1997). Commercial banks are therefore instruments for creating economic value for shareholders who invest risk-taking capital in the banks - this clear, acceptable and uncontroversial purpose drives banks to pursue corporate profitability as their long-term goal in the best interests of shareholders (Buchetti & Santoni, 2022; Adams & Mehran, 2003). What is controversial however, is the best way of advancing the interests of the shareholders, particularly in publicly held commercial banks (Deloitte, 2024). Many shareholder theorists, argue that all things being equal, shareholders are best served whenever share prices and dividends increase (Buchetti & Santoni, 2022). In contrast, others argue that share prices and dividends are essentially short-term results which emphasize current results over future results and advocate that commercial banks should not be pressured into short-termism, but to consider short-term objectives while focused on long-term goals (Deloitte, 2024; Financial Reporting Council, 2024, 2025; Adams & Mehran, 2003).

Demand for Social Responsibility: Stakeholder Theory, Resource-dependency Theory, and Institutional Theory

Stakeholder theory suggests that a commercial bank can pursue corporate profitability at the same time as fulfilling its corporate social responsibility to a wide and diverse range of stakeholders e.g., employees, suppliers, buyers and government agencies (Asher et al., 2005; Chisnall, 2010). This suggestion receives support from Resource-dependency and resource-based theorists who argue that external resources e.g., external stakeholders, affect firm behaviour (Pfeffer & Salancik, 2009). Similarly, Institutional theorist position governance, social responsibility, and profitability as social constructs which drive the competitive and corporative behaviours of institutions or organisations, including commercial banks (Scott, 2013; Battilana, 2006; Dacin, Goodstein, & Scott, 2002). In this context UK commercial banks have the legal responsibility to abide by the stipulations outlined in their legal contracts with shareholders or owners of the commercial banks, and are therefore, bound to operate within the 'rules of the game' in each jurisdiction in which they operate (Deloitte, 2024; Buchetti & Santoni, 2022). However, being good corporate citizens means UK commercial banks are more than just profit-making entities regulated by legal contracts - they also have a moral responsibility to safeguard the interests of a wide and diverse groups of stakeholders who are interested in the long-term survival and growth of commercial banks (Chisnall, 2010).

A key component factor linking stakeholders', resource-dependency, and institutional theories is stakeholders' trust i.e., a feeling of security that each individual stakeholders' interests will be considered (Martinuzzi & Krumay, 2013; Gay, 2002; Dacin et al., 2002; Clarkson, 1995). Stakeholders' Trust evolves where each stakeholder feels certain that other stakeholders will behave in a socially responsible manner, instead of letting their own self-interest prevail without limitation or due consideration of others (De Wit, 2020; Martinuzzi and Krumay, 2013; Dacin et al., 2002). Once there is enough trust between different stakeholder groups, they can engage emotionally (based on a sense of pride and loyalty) and practically (based on willingness to invest years acquiring firm-specific knowledge and skills, and opportunity to build a career) in mutually beneficial relationships, even when there is no legal imperative for doing so (Martinuzzi & Krumay, 2013; Clarkson, 1995). It is therefore vital that commercial banks reward stakeholders' commitment by acting responsibly, even where this hurts their corporate profitability; otherwise, the bond of trust can be seriously damaged (Gay, 2002; De Wit, 2020).

Unlike resource-dependency and institutional theorists, stakeholder theorists "do not see why the supplier of one ingredient in an economic value-creation process has a stronger moral claim on the organisation than the providers of other inputs…(they) challenge the assumption that individuals with an equity stake…have the right to demand that the entire organization work on their behalf" (De Wit, 2020, p. 604). For stakeholder theorists, a commercial bank is not shareholders' profit-making instrument, but "a coalition between various resource suppliers…a joint venture in which the suppliers of equity, loans, labour, management, expertise, parts and service all…hold a stake…and are mutually dependent…that the purpose…is to serve the interests of all parties involved" (De Wit, 2020, p. 604). Although shareholders' interest in profitability is legitimate, their emphasis on profitability must be balanced against the legitimate demands of other stakeholders (Chisnall, 2010; Clarkson, 1995; Freeman, 1984). The act of balancing the interests of a diverse range of stakeholders is very challenging, requiring negotiation and compromise, and the expected outcome(s) of the negotiations and compromises depends primarily, on the bargaining power of each stakeholder, in terms of how essential each stakeholder's input to the economic success or corporate profitability of the corporation is, and the extent to which each stakeholder's interests are pursued based on the perceived legitimacy of their claims (Chisnall, 2010; Freeman, 1984).

Research Agenda: Conceptual Framework and Research Design

Strategic management literature clearly defines corporate performance in terms of an organisation's long-term purpose or corporate purpose e.g., corporate profitability (pursued by 'for-profit' organisations) and corporate social responsibility (pursued by 'non-profit' organisations) (De Wit, 2020; Gay, 2002). In this context, UKCGC (2024) adopts both a principles-based approach (i.e., each CG principle provides general guidelines of best practice) and a rule-based approach (i.e., provisions linked to each CG principle are rigidly defined and must be adhered to by listed firms). For example, the role of a Board is to 'govern' the organisation, and the role of shareholders is to appoint 'directors and auditors' to ensure the organisation's CG structure is continuously aligned with changes in the external environment including changes in the needs and expectations of shareholders and stakeholders (UKCGC, 2024; Financial Reporting Council, 2024, 2025; OECD, 2023). As shown in Table 1 below, the UKCGC 2024 is based on five key principles: 1/Board leadership and company, 2/Division of responsibilities, 3/Composition, succession and evaluation, 4/Audit, risk and internal controls, and 5/Remuneration, which set out the expectation that companies should focus on activities and outcomes to demonstrate the impact of good CG practices on CP results (UKCGC, 2024).

Sections/ Themes	**Principles/ Provisions**	**CG Measures**	**Corporate Performance Measures - financial vs non-financial measures**	
			CSR measures – non-financial measures	**CP measures – financial measures**
1/Board leadership and company	Effective Entrepreneurial Board.	Entrepreneurship; Engagement, shareholders, stakeholders e.g., workforce	Sustainability; shareholders and stakeholders' values.	Workforce satisfaction; wider society.
2/Division of responsibilities	Effective Leadership of Board Chair.	Objectivity; Independence; Role separation - Chair/CEO.	Culture of openness; Company secretary.	Independence; non-executive directors.
3/Composition, succession and evaluation	Formal, rigorous, and transparent appointments.	Rigorous and transparent procedure; Effectiveness of succession plan.	Promoting diversity, inclusion and equal opportunity.	Length of service; membership refreshed.
4/Audit, risk and internal controls	Independence, Audit functions - Integrity.	Transparency of Internal and external audit functions.	Transparency, Independence.	Integrity of financial statements e.g. risks.
5/Remuneration	Policies support strategy and long-term success.	Remuneration outcomes – performance-based.	Alignment with purpose and strategy.	No director involved in deciding outcome.

Table 1: UK Corporate Governance Code 2024: Principles, Measures of Corporate Governance, Social Responsibility, and Profitability (Source: UKCGC (2024); Financial Reporting Council (2024, 2025); OECD (2023))

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Table 1 also identifies five (5) measures of CG (a/leadership, b/responsibilities, c/composition, d/internal controls, and e/remuneration). In addition, we identified five (5) measures of CP (a/ROA, b/ROE, c/Tobin's Q, d/share price, and e/market share). Furthermore, we identified, five (5) measures of CSR (a/collaboration, b/institutions, c/education, d/climate action, and e/responsible production). The extent to which these measures of CG, CP and CSR are common across industries, countries, and corporations have been under researched, as such there is an opportunity to further developed them into a measurement construct in future research as part of our proposed research agenda discussed in the next section. A primary focus of this paper is to explore the relationships between corporate governance (CG), corporate social responsibility (CSR), corporate profitability (CP) and other organisational variables. The key findings from the above systematic review of extant literature and prior studies clearly indicates that the complex nature of the relationship between CG, CSR, and CP, needs to be examined in a holistic and integrated framework incorporating the antecedents, processes and consequences. We therefore propose a research agenda based on the holistic and integrated conceptual framework in Figure 1 below, which demonstrates the linkages between 'banking industry dynamism', 'board dynamic capabilities', 'bank's competitive strategies', 'bank's CSR-specific dynamic capabilities', and 'bank's corporate profitability'.

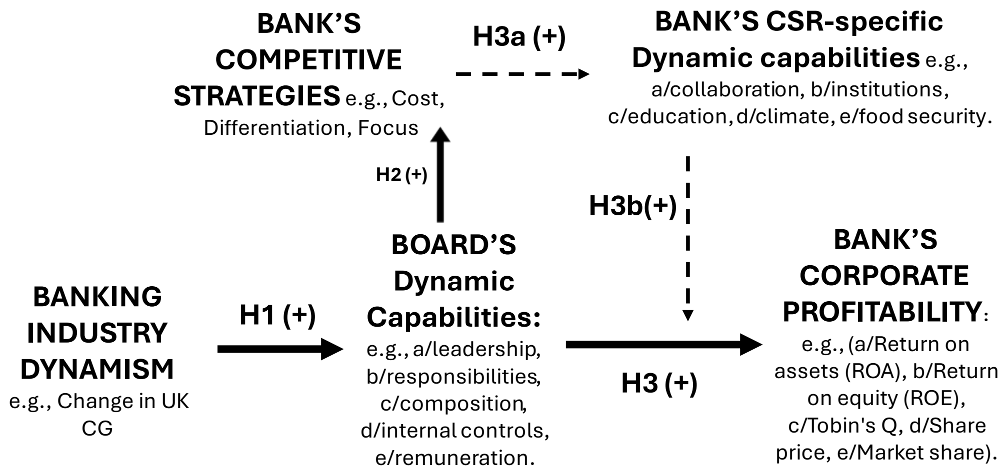

Figure 1: Conceptual Framework for Corporate Governance Research in UK Commercial banks (Source: Authors)

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UK Banking Industry Dynamism and Board's Dynamic Capabilities: H1(+)

The demand for change in corporate governance (CR) principles and provisions has been driven by external forces emanating from the commercial banking industry and from the general or macro-environment (Deloitte, 2024; Cadbury, 1992). Banking industry or market dynamism is caused by a leading external factor or a combination of several external factors, including corporate bankruptcy, global economic cycles, financial crises, global pandemics, technological innovation, political and regulatory changes, changes in the socio-cultural and ecological environments, and the changing competitive nature of the commercial banking industry (Deloitte, 2024; Rosenstein & Wyatt, 1990). Cadbury (1992), Greenbury (1995), Hampel (1998), Turnbull (1999), Myners (2001), and UK Corporate Governance Code 2024 (UKCGC, 2024), illustrate that radical government intervention following domestic misgovernance, lack of social responsibility, and corporate bankruptcy in the UK was a major factor driving commercial banking industry dynamism. In response publicly listed commercial banks with higher CG internal control capabilities developed managerial and leadership capabilities and adapted themselves quickly to the various iteration of corporate governance codes of best practice and the requirement to 'comply or explain' (Financial Reporting Council, 2024, 2025; UKCGC, 2024). Comparatively, in the US banking industry, Deloitte (2024) illuminates that regulatory change altered the banking industry dynamism, which, in turn, influenced banks' CG core competency and dynamic capability development. For example, according to Deloitte (2024), in the US banking industry following the:

"2023 failures of three large regional banks and the required support needed to rescue a global systemically important bank (G-SIB) had a significant impact on public discussions about the appropriate approach to regulation and supervision for banks based on their size, risk profile, and business model. For regulators, 2023 was a call to action to enhance their supervisory toolkit (including new regulations), further develop analytical and monitoring practices, and ultimately increase the speed and force of their actions when it is necessary to take them" (Deloitte, 2024, p. 2).

For UK commercial banks, these supervisory and regulatory changes in the US banking sector necessitated developing or building core competencies and dynamic capabilities for assuring good corporate governance which delivers corporate profitability (Deloitte, 2024). The imperative is for UK commercial banks to continue to closely evaluate how new international banking regulations would impact their competitive strategies in terms of costs, differentiation, and focus (Essen, Engelen, & Carney, 2013; Asher et al., 2005; Donaldson, 2003). Prior to the publication of Cadbury's 1992 Report, the UK commercial banking industry was dominated by few large integrated hierarchical commercial banks, which held key financial resources internally for long periods of time (Deloitte, 2024; Cadbury, 1992). Barriers to entry and imitation of key financial resources and capabilities were high (Adams &

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Mehran, 2003). Pressured by Cadbury's 1992 Report and subsequent changes in CG principles and provisions, UK commercial banks began to develop core competences and dynamic capabilities to effectively respond to changes in commercial banking regulations (Wali, van Paridon, & Darwish, 2023; Kyere and Ausloos, 2021; Brahma et al., 2021; Shaukat and Trojanowski, 2017; Zahra & Stanton, 1988). During the post-Cadbury era, UK's commercial banking industry witnessed notable developments and trends, reflecting changes in banking system efficiency, structural transformations such as the declining number of bank branches, and shifts in consumer behaviour toward online banking (Brahma et al., 2021; Shaukat & Trojanowski, 2017).

The transition toward digital banking channels has reshaped the banking landscape in the UK and Europe – considering that some of the largest digital banks in Europe e.g., Revolut, Starling, and Wise, are based in the UK - leading to the consolidation and closure of physical branches as institutions adapt to meet the evolving needs and preferences of their customers and other stakeholders (Deloitte, 2024; Brahma et al., 2021; Shaukat & Trojanowski, 2017). This illustrates that UK commercial banks at a certain point in time must create CG core competences and dynamic capabilities in response to commercial banking industry changes, and hence the more dynamic the commercial banking industry is, the more proactive, efficient, and effective commercial banks need to be in adapting, renewing, reconfiguring, and re-creating their CG-related competencies and capabilities, and the higher their levels of good CG policies and practices (Tricker, 2009; Asher et al., 2005; Donaldson, 2003; Siciliano, 1996). While prior studies have examined some of the key generic factors impacting UK commercial banking industry profitability e.g., government intervention, threat of new entrants, threat of substitutes, rivalry among incumbents, and the bargaining powers of customers and suppliers, there is an urgent need for critical empirical examination of the influences of banking industry dynamism – measured in terms of changes in specific corporate governance principles and provisions - on commercial banks' competencies and capabilities in dealing with these changes, based on the assumption that industry dynamism is an antecedent to the development of capabilities required for good corporate governance (Wali et al., 2023; Kyere & Ausloos, 2021; Brahma et al., 2021; Daily & Dalton, 1992). This means the more dynamic the UK's commercial banking industry environment, the stronger the drive for commercial banks to develop core competencies and dynamic capabilities in response to changes in corporate governance principles and provisions contained in the UK Corporate Governance Code 2024. Therefore, we propose Hypothesis H1 that:

- Hypothesis H1. Commercial Banking Industry Dynamism does not significantly impact development of Board's Core competencies and Dynamic capabilities, in response to changes in corporate governance principles and provisions. Where, industry dynamism is the independent variable, and competencies and capabilities are the dependent variables.

Board's Dynamic Capabilities and Bank's Competitive Strategy: H2(+)

We refer to the development of boards' dynamic capabilities for good corporate governance within a commercial bank, as an integral part of the bank's own organic development of its internal resources and capabilities over time (Johanson, 2008; Huse, 2007; Dalton & Dalton, 2005; Peel & O'Donnell, 1995). The development of an organisation's internal resources and capabilities over time complements the resource-based view (RBV) of competitive strategy e.g., the development of internal resources and capabilities helps commercial banks to exploit opportunities associated with new online banking technologies (Deloitte, 2024; Schmidt and Tyrell, 1997; Finkelstein & D'Aveni, 1994), new online banking product and service development (Deloitte, 2024; Asher et al., 2005). A commercial bank's internal resources and capabilities determine its positional advantage (i.e., differentiation, cost leadership, and focus strategy), which, in turn, leads to improvement in the bank's corporate profitability (Asher et al., 2005; Donaldson, 2003; Dalton, Daily, Ellstrand, & Johnson, 1998). The path of developing internal resources and capabilities for good corporate governance – as a unique source of competitive advantage - is not expected to be universal across commercial banks, and therefore UK commercial banks are expected to develop core competencies and dynamic capabilities as directed by their long-term competitive strategies e.g., low-cost leadership, product or service differentiation, or focus strategies - therefore the outcomes from commercial banks developing their corporate governance competences and capabilities are expected to be different across commercial banks (Aguilera, Filatotchev, Gospel, & Jackson, 2008).

The key to a commercial bank's survival and success lies in its ability to create a set of distinctive core competences and dynamic capabilities in response to the changes to the UK's corporate governance principles and provisions, which enable it to stand out in the competition (Deloitte, 2024; Asher et al., 2005). Strategic management literature reveals that organization-specific assets have strong positive effects on organization's competitive strategy (De Wit, 2020; Kaplan & Reishus, 1990). This indicates that the more a commercial bank is equipped with unique internal resources and the stronger its core competencies and capabilities to effectively and efficiently use these internal resources, the more it is to develop a more successful competitive strategy (Pearce & Zahra, 1992; Rechner & Dalton, 1991; Baysinger & Hoskisson, 1990). For example, if the strategic orientation of a Board is to differentiate itself from rival commercial banks, by strict adherence to the 'comply or explain' requirements of the UK Corporate Governance Code 2024, the Board may direct the bank's capability development toward innovative internal control processes, which lead to innovative financial products or services (UKCGC, 2024; Financial Reporting Council, 2024, 2025). In contrast, if the bank wishes to pursue a low-cost leadership strategy, it may focus on efficiency drivers recommended in the Code, to enable it to achieve overall cost cutting (Deloitte, 2024; De Wit, 2020; Huse, 2007; Pi, & Timme, 1993). We argue that the more proactive and effective a Board response to changes in CG principles and provisions, the more likely the commercial bank is in building corporate governance-specific competencies and capabilities over time - the focus on developing corporate governance-specific competencies and capabilities in response to changes in corporate governance requirements, is dictated by the bank's overall competitive strategy. We, therefore, propose that 'core competency and dynamic capability development' in the context of a UK commercial bank is an outcome of the bank's own strategic development of internal resources and capabilities, often steered by the bank's competitive strategy (i.e., low-cost leadership, or financial product differentiation, or focus strategy). Hence, we contend that:

- Hypothesis H2. Development of Board's dynamic capabilities for good corporate governance do not significantly impact Commercial Bank's competitive strategy.

The intervention of the bank's generic competitive strategy on the development of the bank's core competencies and dynamic capabilities, implies that Boards have the strategic option of adopting a series of small steps in a continuous manner within the existing competitive strategy (evolutionary approach) or and a series of big steps or leaps in a discontinuous manner (revolutionary approach) in response to changes in UK CG principles and provisions (Deloitte, 2024; Financial Reporting Council, 2024, UKCGC, 2024).

Board's Socially Responsible Capabilities Linked to Corporate Governance and Corporate Profitability: H3(+)

Given the path-dependent nature of corporate performance, it is meaningful to examine the impact of good corporate governance on commercial banks' competencies and capabilities for achieving differential or superior corporate performance, which can be measured both in financial and non-financial terms in comparison with main competitors or the industry average over time (Deloitte, 2024; De Wit, 2020). This is evidenced in prior studies on commercial banks' competences and capabilities e.g., Wali et al.'s (2023) work on effectiveness of banking governance, Kyere and Ausloos' (2021) work on how good CG impacts CP, Brahma et al.'s (2021) work on gender diversity capabilities and CP, and Shaukat and Trojanowski's (2017) work on Board capacity and CP (see Appendix 1). Empirical evidence supports the fact that each of the five component factors or principles of corporate governance in the UK: 1/board leadership (e.g., Shaukat & Trojanowski, 2017; Bhagat & Black, 2002; Dalton et al., 1998), 2/division of responsibilities (e.g., Van den Berghe & Levrau, 2004; Laing & Weir, 1999; Boyd, 1995; Dalton & Kesner, 1987), 3/board composition, succession and evaluation (e.g., Shaukat & Trojanowski, 2017; O'Sullivan & Wong, 1998; Vafeas & Theodorou, 1998), 4/audit, risk and internal controls (e.g., Chisnall, 2010; Huse, 2005, 2007; Turnbull, 1999, 2000; O'Sullivan and Wong, 1998), and 5/board remuneration (e.g., Buchetti & Santoni, 2022; Adams & Mehran, 2003; Greenbury, 1995), plays an important role in UK's commercial banks' long-term corporate performance results e.g., CP and/or CSR. Lawal (2012) concludes that board dynamics measured in terms of the component factors of CG are

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critical for achieving differential corporate performance in competitive environments. Also, Adjaoud, Zeghal, and Andaleeb (2007) view board quality as a competence and capability which influence corporate performance. Furthermore, Adams, Almeida, and Ferreira (2005) provide evidence that the power of CEOs is essential for achieving differential or superior corporate performance results and to effectively respond to new market demands. Given this evidence, we argue that good CG impacts the CP and CSR performance results of commercial banks.

It is also important to note that the reported impact of CG on CP performance results, and the mediating effects of CSR remain mixed and, in some instances, inclusive (Kyere & Ausloos, 2021; Lawal, 2012; Aguilera, Filatotchev, Gospel, & Jackson, 2008; Adjaoud et al., 2007; Adams et al., 2005). For example, Kyere and Ausloos (2021), examined the impact of CG (measured in terms of insider shareholding, board size, independent directors, CEO duality, and audit committee meetings) on CP (measured in terms of ROA and Tobin's Q), and obtained mixed findings, which confirmed earlier findings (e.g., Elsayed, 2007; Christensen, Kent, & Stewart, 2010; Essen, Engelen, & Carney, 2013). Also, Kyere and Ausloos (2021) reported that the size of insider shareholding affects CP results, however, Agrawal and Knoeber (1996) indicated that insider shareholding has no influence on CP performance. According to Kyere and Ausloos (2021) board size and independence positively impacted ROA and Tobin's Q, which confirm Christensen et al.’s (2010) conclusion that a strong board independence reduces the cost of agency, thereby improving CP performance results. However, somewhat inconclusively, Kyere and Ausloos (2021) report that the frequency of audit committee meetings indicates some influence on ROA but no influence on Tobin's Q. This leads us to consider the effects of component factors of CSR – measured in terms of the UN’s sustainable development goals (SDGs) - as mediators of the CG and CP relationship (McElroy, Jorna, & van Engelen, 2008).

Although, prior studies reveal a positive correlation between CSR and CP (e.g., De Wit, 2020; Carroll & Shabana, 2010; Mason & Simmons, 2014; Richard, 2000), to date the mediating roles of CSR (UN’s SDGs) in the CG-CP relationship have been under researched (McElroy et al., 2008 Connelly & Limpaphayom, 2004). Development of CSR competency and capability – linked to CG principles and provisions - is a source of competitive advantage for commercial banks (Martinuzzi & Krumay, 2013; Carroll & Shabana, 2010; Boyd, 1995), which in turn determine the bank’s competitive position and, consequently, its corporate profitability performance (Carroll, 1991; Mason & Simmons, 2014). We argue that a commercial bank’s good CG impacts its CP, but the impact is an indirect one mediated by CSR competencies and capabilities embedded in the bank’s competitive strategy (e.g., low-cost leadership, product or service differentiation, or focus strategy). As such, we contend that, good CG is more likely to lead to better bank CP when CSR competencies and capabilities are efficiently and effectively developed in line with the bank’s competitive strategy. This argumentation, leads us to propose:

- Hypothesis H3: Board CSR-specific Dynamic capability linked to CG does not significantly impact corporate profitability. Where Board CSR-specific capabilities linked to CG are the independent variables, and CP is the dependent variable.

It is worth noting that there are two key assumptions in our proposed holistic integrated conceptual framework and research agenda. First, underlining UK commercial banks' CG system development is the path-dependent nature of commercial banks' long-term orientation – involving a mix of evolutionary and revolutionary change processes - toward CP, vis-à-vis their choice of competitive strategy e.g., low-cost leadership, product or service differentiation, or focus strategy. Therefore, our conceptual framework may not be applicable to Boards that adopt short-term orientation towards corporate profitability. Second, we assume that an 'integrated' approach to CG, based on adoption of aspects of 'organic or inside-out' approach (through internal resources and capabilities) and aspects of 'inorganic or outside-in' approach (through mergers and acquisitions) to CG would make UK commercial banks more resilient in an increasingly turbulent global commercial banking industry.

The self-explanatory Table 2 below presents a summary of the hypotheses (H1, H2 and H3), and identifies the dependent and independent variables, and related measures for future research.

Null Hypotheses	Dependent variables/key measures	Independent variables/key measures
Hypothesis H1 (+). Commercial Banking Industry Dynamism versus Board's Core competencies and Dynamic capabilities.	**Board's dynamic capabilities** e.g., a/leadership, b/responsibilities, c/composition, d/internal controls, e/remuneration.	**Commercial Banking Industry Dynamism** e.g., changes in UK CG principles and provisions.
Hypothesis H2 (+). Development of Board's dynamic capabilities for good corporate governance versus Commercial Bank's competitive strategy.	**Commercial Bank's competitive strategy** e.g., low-cost leadership, product or service differentiation, focus strategies.	**Development of Board's dynamic capabilities for good corporate governance** e.g., a/leadership, b/responsibilities, c/composition, d/internal controls, e/remuneration.
Hypothesis H3 (+): Board CSR-specific Dynamic capability linked to CG versus Corporate profitability.	**Banks' corporate profitability** e.g., a/ROA, b/ROE, c/Tobin's Q, d/share price, e/market share.	**Board CSR-specific Dynamic capability** linked to CG e.g., a/collaboration, b/institutions, c/education, d/climate action, e/responsible production.

Table 2: Summary of Hypotheses: Dependent variables, independent variables, and related measures.

Based on Table 2 we propose a future research design and methods, comprising of Questionnaire Survey and/or Semi-structured interviews implemented sequentially. The questionnaire survey could be part of a quantitative study which seeks to explore in nature of mediating effects of CSR on the CG-CP cause-and-effect relationship. The questionnaire design would have two parts. First, to explore how respondents' demographic characteristics impact good corporate governance, and second, to explore respondents' attitudes toward various measures of the dependent (e.g., board's dynamic capabilities, bank's competitive strategies, and bank's corporate profitability) and independent variables (e.g., banking industry dynamism, board's dynamic capabilities for good corporate governance, and board CSR-specific dynamic capabilities. In contrast, the semi-structured interview may form part of a qualitative study to critically evaluative the themes emerging from the questionnaire survey. For example, interview themes and specific questions, may include, 'commercial banking industry dynamism' (what is the continuing relevance of the comply or explain recommendation?), 'board's core competencies and dynamic capabilities' (how does board diversity impact of bank performance?), 'bank's competitive strategies' (how effective is the integration of low-cost leadership and financial product differentiation strategies in the context of the comply or explain principle?), 'board's CSR-specific dynamic capabilities' (how effective is board's absorptive capacity in enhancing good corporate governance?), 'sustainability of bank's corporate profitability' (to what extent does board's cultural diversity impact bank's ROA?).

Conclusions and Future Research

This paper set out to complete two main tasks. First, to critically evaluate the development of corporate governance (CG) and how it relates to corporate social responsibility (CSR) and corporate performance (CP) in commercial banks, in the context of the evolution of the UK's corporate government system. By critically evaluating major conceptual and empirical works, we mapped out the development of the CG concept and identified several principles, provisions, and research questions surrounding definitional and relational issues, the missing link of transformational mechanisms and common features of CG across UK commercial banks, and the lack of articulation of the relationships between CG, CSR, CP, and other firm- and country-specific parameters. Second, to clarify the conceptualization and application of CG followed by the identification of the commonalities of CG across commercial banks by direct reference to the UK's Corporate Governance Code 2024. We articulated the differences in the adoption of CG principles and provisions in a 'hierarchical' order in line with the four stages/decades of development of CG in the UK. While the CG systems of the 1st decade (1992-2001) and 2nd decade (2002-2011) are zero- and first-order foundations, respectively, the key to developing second-order foundation in the 3rd decade (2012-2021) is the 'integration' of the experiences - expressed in terms of recommendations, best practices, or codes - from the earlier two decades in line with the strategic goals of the regulators and commercial banks e.g., FRC, ICAEW. The essence of understanding the relationship between CG, CSR and CP is a board of directors' behavioural orientation in the development of core competences and dynamic capabilities in responding to changes in UK corporate governance codes. We conceptualise the relationship between CG, CSR and CP in such a way that the common measures are identifiable and measurable, although the processes in which CG, CSR and CP are embedded may be specific to commercial banks, and the commercial banking industry in the UK.

Our holistic and integrated conceptual framework in Figure 1, identified five categories of component measures of good CG (a/board leadership, b/board responsibilities, c/board composition, succession and evaluation, d/internal controls, audit and risks, e/remuneration), five component measure of CP (a/Return on assets (ROA), b/Return on equity (ROE), c/Tobin's Q, d/Share price, e/Market share), and five component measures of CSR (a/collaborative partnerships, equality, diversity, and inclusion, b/strong institutions and sustainable infrastructure, c/quality education, job security, good health and wellbeing, d/sustainable climate action and energy, e/responsible production, consumption, and food security). Critical empirical and conceptual studies on how CSR mediates the effects of CG on CP especially in the context of UK commercial banking, remain under researched, and findings are mostly fragmented. We articulated the linkages between each component measures of CG, CSR, and CP with a view to explicating the transformational mechanisms between CG and CP mediated by CSR. Thus, the research agenda would contribute to critical understanding of how the component measures of CSR mediates the effect of CG on CP. Furthermore, the component measures for CG, CSR and CP can be adopted and developed into a measurement construct for examining the relationships between CG, CSR and CP in future studies. In brief, our proposed a research agenda incorporates UK commercial banking industry dynamism as an antecedent to development of Board's capabilities for good CG, and superior CP as consequences of good CG policies and practices, mediately by good CSR polies and practices. We acknowledge, that, the mediating effects of CSR on the relationship between CG and CP are relatively complex, because Boards strengthen their CG capabilities as directed by their own CP goals; and when CG capabilities and CP goals are effectively aligned, and effectively mediated by CSR, there is a high probability that good CG will result in better CP.

A strong justification for adopting our holistic integrated conceptual framework, relates to the lack of clarity on the nature of the mediating effects of the five component measures of CSR identified in this study: a/collaborative partnerships, b/strong institutions, c/quality education, d/sustainable climate action, e/responsible production), on the impact of CG on CP; coupled with the evidence that although there is extensive research on CSR, CG, and CP, the finding remain fragmented and anecdotal, and the CSR transformational mechanisms which link UK commercial banks' CG capabilities to their CP goals remain under researched and have not yet reached maturity. Most of the empirical studies that we selected for review (see Appendix 1) are quantitative and based on case studies. These studies have discovered a wide range of bank-, industry-, and country-specific antecedents, processes and capabilities pertinent to CG development in UK listed firms - these findings are, indeed, the basis of CG, CSR, and CP theory building. Future research should therefore continue such quantitative endeavours, but efforts should be made toward establishing the transformational mechanisms between commercial bank-specific CSR processes and the UK's CG core principles and provisions (see Figure 1). This will facilitate cross-comparison of research findings and thus enhance the 'collective power' of research outcomes. In contrast, qualitative and mixed research approaches are under-developed, as evidence by the smaller number of key UK-based empirical studies identified. Furthermore, most prior quantitative studies examine a narrow aspect of CSR, CG, and CP. For example, Kyere and Ausloos (2021) examined the impact of five CG measures (board size, CEO duality, independence, insider shareholding, and audit committee) on two CP measures (ROA and Tobin's Q), with no specific mention of CSR measures, and Dalton and Dalton (2005), who developed practical prescriptions for the development of CG capabilities given external and internal factors. An exception is the work by Mason and Simmons (2014), which developed a composite stakeholder model for embedding CSR in CG.

There are two key messages from this paper relating to Board dynamism vis-à-vis Industry dynamism. First, while recognizing the differential positions in CG policies and practices among UK commercial banks and the different paths towards corporate profitability and sustainability, BoDs can chart the development of CG in their banks using the common features that we identified and benchmark their policies and practices with industry peers. However, BoDs must not evaluate the relationship between CG and CP as a stand-alone target. Instead, the change trajectory in the external environment – with respect to the UK CG Code 2024 and OECD CG principles and provisions - the bank's history, its long-term orientation and its competitive positioning must be considered to ensure effective CG and CSR capability development. Second, CG and CSR capabilities development is time-dependent e.g., investing in some aspects of CSR may not necessarily produce immediate CP effects. Therefore, commercial banks must not reverse or re-direct CG and CSR capability development efforts at the first sign of failure or even when no immediate CP results are produced. Effective CSR and CG capability development requires that commercial banks maintain a consistent long-term vision and long-term performance orientation at the Board level. We summarise future research in three key directions:

- Qualitative studies based on grounded theory methodology, with the aim to develop and validate a multidimensional construct of corporate governance, guided by the component measures of governance (a/board leadership, b/board responsibilities, c/board composition, succession and evaluation, d/internal controls, audit and risks, e/remuneration), social responsibility (a/collaborative partnerships, equality, diversity, and inclusion, b/strong institutions and sustainable infrastructure, c/quality education, job security, good health and wellbeing, d/climate action and sustainable energy, e/food security, responsible production and consumption), and profitability (a/Return on assets (ROA), b/Return on equity (ROE), c/Tobin's Q, d/Share price, e/Market share), in the commercial banking sector.
- Quantitative studies based on rigorous statistical analysis e.g., structural equation modelling, with the aim to examine the mediating effects of the UN's Sustainable development goals (SDGs) or other social responsibility measures (e.g., a/collaborative partnerships, equality, diversity, and inclusion, b/strong institutions and sustainable infrastructure, c/quality education, job security, good health and wellbeing, d/climate action and sustainable energy, e/food security, responsible production and consumption) on the impact of corporate governance on corporate profitability in the commercial banking sector.

This would provide a holistic and critical understanding of the circumstances under which UK commercial banks should direct their CSR and CG policies and practices in search of sustained corporate profitability.

- Sequential mixed research studies, starting with a qualitative phase followed by a quantitative phase or vice-versa, based on the holistic integrated conceptual framework (as shown in Figure 1). Typically, the qualitative phase would be based on semi-structures interviews, while the quantitative phase would be based on questionnaire survey.

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Authors

Dr. Augustus Osseo-Asare, Senior Lecturer, Faculty of Business and Technology, University of Sunderland, UK.

Najat Ishmaiel, PhD Researcher, Faculty of Business and Technology, University of Sunderland, UK.

Dr Juila Janfeshar Nobari, Senior Lecturer, Faculty of Business and Technology, University of Sunderland, UK.

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