Sectoral Impact of Corporate Governance: Short-Term Profitability vs. Long-Term Value Creation

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Abstract: This paper investigates how financial performance influences corporate governance in several sectors, exposing significant results that vary depending on industry. These findings demonstrate the strategic importance of governance: effective governance encourages investment and enhances firm value in capital-intensive sectors (e.g., manufacturing, energy), while also boosting short-term profitability in heavily regulated sectors (e.g., healthcare, finance). A quantitative cross-industry analysis was conducted using financial performance and governance data. The findings underline the need for critical industry-specific regulations inside the more general Environmental, Social, and Governance (ESG) framework. Strong governance structures and efficiency are significantly correlated *(r = 0.354)* between governance and EBIT in the banking industry. Greater profitability follows from this. Similarly, a strong correlation between governance and EBITDA in the healthcare sector *(r = 0.495)* highlights the critical role of robust governance for operational resilience and financial stability, especially in a highly financially constrained and highly regulated environment such as healthcare. By contrast, the consumer sector shows a weaker correlation *(r = 0.223)*, implying that various factors play a greater role in its profitability than enhancements in the operational efficiency of governance. In the energy industry, governance is more strongly correlated with long-term enterprise value *(r = 0.468)* than short-term profitability, indicating that strong governance drives long-term company value, even if costly in the short term. In the industrial sector, a significant correlation between governance and enterprise value *(r = 0.447)*, consistent with past studies, underlines that effective governance is crucial for maximizing investment strategies and guaranteeing long-term firm value in capital-intensive sectors. These results illustrate that governance strategies must be tailored to these sectors' budgetary and regulatory contexts. While strong governance improves profitability in regulated sectors, it fosters long-term wealth development in capital-intensive businesses. Therefore, investors and company executives should modify their governance policies to the needs of their industry rather than rigorously following an ESG model.

Keywords: ESG, Corporate governance, Cross-Industry analysis, Leadership, Sustainable strategy

1. Introduction

Corporate governance is critical in determining a firm's performance and sustainable growth. Prior research generally finds that stronger governance structures are associated with better financial outcomes. For example, companies with shareholder-friendly governance enjoy higher valuations and stock returns over time (Gompers, Ishii & Metrick, 2003). However, the benefits of good governance may manifest differently across industries. Companies in specific sectors may experience immediate profitability enhancements from improved governance, while others may realize advantages in long-term value generation. This raises a critical question: does the impact of financial performance on corporate governance differ between short-term profitability and long-term firm value, depending on the industry sector?

Recent research on ESG performance yields inconclusive results and indicates that context is significant. Meta-analyses suggest a correlation between comprehensive ESG factors and financial performance. Governance is often a consistently strong positive predictor of firm performance across. At the same time, some work indicates that industry characteristics can moderate these effects. For instance, Brogi and Lagasio (2019) show that the relationship between ESG practices and profitability can differ for financial intermediaries compared to other companies. Similarly, Ioannou and Serafeim (2012) found that the institutional context leads to variation in corporate social performance across environments. These findings underscore the importance of understanding the context in the governance-performance relationship, hinting that a one-size-fits-all approach to corporate governance, which assumes that the same governance practices will work for all companies, may be suboptimal due to the unique characteristics and needs of different industries and that sector-specific analysis is necessary.

The ongoing debate over short-term profits versus long-term value creation has been a significant aspect of corporate strategy. The theory suggests that managers in environments with weak governance may prioritize short-term earnings, potentially neglecting long-term value. In contrast, strong governance helps align management with the long-term interests of shareholders (Jensen & Meckling, 1976). On the other hand, adopting long-term sustainable strategies can incur upfront expenses, which may temporarily reduce profitability (Porter & van der Linde, 1995). Efficient governance can help balance these competing demands by promoting responsible investment and accountability. Therefore, it is essential to investigate how governance impacts short-term financial performance compared to long-term value creation and whether this balance varies across different industries, highlighting the corporate governance strategy's complexity and multifaceted nature.

This study addresses a significant gap in the literature by delivering a thorough analysis of how corporate governance affects firm performance across different sectors. It provides a distinct viewpoint by concentrating on five key sectors—finance, consumer, healthcare, industrial, and energy—and assessing governance's role in both short-term profitability and long-term firm value. This paper enhances the understanding of how the governance-performance relationship varies across industries. Its unique contribution is rooted in exploring corporate governance's sectoral effects, a topic that has been insufficiently examined in existing literature. The rest of this paper is structured as follows: Section 2 reviews pertinent literature and formulates expectations for each sector. Section 3 details the data and methodology used for the analysis. Section 4 showcases the empirical results from the cross-sector examination. Section 5 interprets the implications of these findings for theory and practice. Finally, Section 6 concludes the paper with suggestions and future research directions.

2. Literature Review

Extensive literature links corporate governance to financial performance, but findings have often been contingent on contextual factors. Early influential work by Gompers, Ishii & Metrick (2003) introduced a governance index and found that firms with stronger governance had significantly higher equity prices and better stock returns over the long run. This suggests that good governance generally enhances firm value. Subsequent research reinforced this positive link. For example, a meta-analysis by Orlitzky *et al.* (2003) covering 30 years of data showed a positive relationship between corporate social performance (which includes governance aspects) and financial outcomes on average. Friede *et al.* (2015) aggregated evidence from over 2,000 studies and concluded that roughly 90% found a non-negative relationship between ESG factors and financial performance, with a majority reporting a positive effect. Whelan *et al.* (2021) reviewed more than 1,000 studies from 2015–2020 and found that ESG integration tends to either benefit financial performance or at least does no harm in most cases. These studies underline that sound corporate governance and sustainability practices are broadly associated with improved financial metrics or stock returns.

However, researchers have also noted that the strength and nature of the governance-performance relationship can vary across contexts. Differences in regulatory environments, stakeholder expectations, and business models mean that governance might yield different outcomes in different industries. For instance, highly regulated sectors such as banking and healthcare face strict compliance requirements where governance and oversight can directly affect operational efficiency and risk management (Brogi & Lagasio, 2019). Improving governance (e.g., robust board oversight, risk controls) might quickly translate into better financial stability and profit margins in such sectors. In contrast, in fast-moving consumer markets, competitive advantage often stems from innovation and marketing, which could dilute the relative impact of internal governance on short-term profits. Some evidence suggests that governance and ESG practices have a weaker or more lagged effect on performance in consumer-facing companies, as customer preferences and product cycles dominate short-run outcomes (Khan, Serafeim & Yoon, 2016).

Industry characteristics also influence whether governance yields immediate benefits or longer-term advantages. Significant investments in capital-intensive sectors like energy and industrials have long payback periods. Here, governance quality can play a crucial role in guiding strategic investment decisions and ensuring accountability, which may not boost quarterly profits but can enhance firm value over time through better project outcomes and investor confidence. Past research on long-horizon returns supports this; Eccles *et al.* (2014) found that companies with strong sustainability and governance policies significantly outperformed peers regarding stock performance over many years. Likewise, governance is argued to reduce agency costs in large-scale investments and improve long-run value creation in heavy industries (Porter & van der Linde, 1995; Gompers, Ishii & Metrick, 2003). On the other hand, for firms in less capital-intensive sectors (e.g., services or consumer retail), governance improvements might manifest more in cost control or incremental efficiency gains, with a more minor impact on valuation.

In summary, the literature review suggests that while corporate governance generally enhances financial performance, its specific impact—short-term profitability or long-term value—may differ by sector. Regulated industries may experience more immediate performance gains from governance improvements, whereas capital-intensive industries may see governance as an investment in future value. These insights motivate this sectoral analysis of governance effects to empirically disentangle how governance influences Earnings Before Interest and Taxes (EBIT), Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA), or other profitability measures versus enterprise value across industries. The following section describes the approach to investigating these relationships.

3. Methodology

To explore the sector-specific impact of corporate governance on firm performance, this paper conducted a cross-sectional quantitative analysis using company data from five sectors: finance, consumer, healthcare, industrial, and energy. The sample comprises 124 large European companies from the Euro Stoxx 600 index. These sectors were chosen to represent a range of regulatory and economic conditions—from highly regulated (finance, healthcare) to consumer-driven (consumer discretionary/staples) to capital-intensive (industrial, energy). This research collected measures of corporate governance quality and financial performance for each company.

This paper proxied corporate governance quality using the Governance pillar score provided by Refinitiv in their ESG database (Refinitiv, 2024). This score captures various aspects of governance structures and practices, such as board structure, shareholder rights, transparency, and audit quality. A higher score indicates stronger governance according to ESG criteria. Focusing on this standardized governance metric allows consistent comparison across firms and sectors.

This study selected two types of financial performance indicators to capture short-term profitability and long-term firm value:

- **Short-Term Profitability:** Operating profit metrics such as EBIT and EBITDA were used to gauge current-period profitability. These metrics reflect a firm's core operating earnings. This study uses EBIT for most sectors; however, EBITDA is also considered for sectors where depreciation/amortization is high.
- **Long-Term Value:** Using Enterprise Value (EV) to indicate long-term firm value. EV (market capitalization plus debt minus cash) captures the market's valuation of the business's total worth and is influenced by expectations of future cash flows. It reflects the long-term value creation perceived by investors.

All financial data was obtained from Refinitiv Eikon, ensuring firm comparability. Before analysis, the data were checked for completeness and quality. Companies with missing key financial metrics were excluded or replaced with sector peers to maintain balanced sector samples. Extreme values were adjusted where necessary to reduce the influence of outliers on correlation estimates (Hair *et al.*, 2009).

Pearson correlation coefficients between the governance score and each performance measure within each sector. This approach identifies the strength and direction of the linear relationship between governance and performance for each industry group. Given relatively small sector samples (N≈25 per sector), correlation analysis provides an intuitive gauge of association. Correlation does not imply causation, but significant correlations can suggest a meaningful link for further investigation.

Additionally, to validate the robustness of the findings, the analysis ran simple ordinary least squares (OLS) regression models for each sector, regressing profitability and enterprise value measures on the governance score (and controlling for firm size using total assets or market cap as a control). These regressions help confirm whether governance has a statistically significant effect when accounting for firm scale differences. The regression results (coefficients and significance levels) were consistent with the correlation analysis, reinforcing the interpretations, but for brevity, this study primarily reports the correlation insights.

4. Results

The analysis reveals distinct patterns in how corporate governance relates to sector performance. Table 1 summarizes the correlation coefficients between governance scores and the financial performance metrics in each industry.

- **Finance Sector:** A positive correlation ***(r = 0.354)*** exists between finance's governance score and EBIT. This moderate, statistically significant correlation indicates that banks with stronger governance structures achieve higher operating profits. Strong governance in financial institutions—through rigorous risk management, compliance, and oversight—seems to enhance efficiency and profitability in the short term.
- **Healthcare Sector:** The governance score positively correlates with EBITDA ***(r = 0.495)*** in the healthcare sector. This is the most significant governance-profitability correlation among the sectors

studied. It indicates that healthcare firms' strong governance (e.g., effective boards and accountability mechanisms) is associated with substantially improved operational earnings. Given healthcare's highly regulated and stakeholder-sensitive nature, good governance likely aids in navigating compliance and cost controls, leading to enhanced financial stability and profit.

- **Consumer Sector:** In consumer-focused companies, the correlation between governance and operating profitability is weaker ***(r = 0.223)*** and not statistically significant. This low correlation implies that variations in governance quality do not strongly explain differences in short-term profit margins among consumer sector firms. Other factors—such as brand strength, innovation, and consumer trends—likely overshadow governance in driving the financial performance of retailers and consumer goods companies in the short term.
- **Energy Sector:** A substantial positive correlation ***(r = 0.468)*** is observed between the governance score and enterprise value in the energy sector. Unlike in banking or healthcare, governance in energy firms has a bigger impact on long-term valuation than immediate profits. Energy companies with higher governance standards tend to have markedly higher enterprise values, suggesting that investors place a premium on strong governance in this capital-intensive, high-risk industry. Good governance likely translates into better long-term project outcomes and risk management, which increases the firm's overall value.
- **Industrial Sector:** A notable positive correlation ***(r = 0.447)*** exists between industrial companies' governance scores and enterprise value. This indicates that manufacturers and industrial firms with stronger governance are valued significantly higher by the market in the long run. Effective governance in industries such as manufacturing may contribute to more prudent capital expenditures, improved strategic planning, and sustainable growth, thereby enhancing long-term enterprise value.

Table 1: Correlation of Governance Score with Performance Measures by Sector

Sector	Short-Term Profitability (EBIT/EBITDA) vs. Governance	Long-Term Value EV vs. Governance
Finance	r = 0.354 (EBIT)	r = 0.290 (EV) *(n.s.)*
Healthcare	r = 0.495 (EBITDA)	r = 0.310 (EV) *(n.s.)*
Consumer	r = 0.223 (EBIT) *(n.s.)*	r = 0.180 (EV) *(n.s.)*
Energy	r = 0.180 (EBIT) *(n.s.)*	r = 0.468 (EV)
Industrial	r = 0.256 (EBIT) *(p < .10)*	r = 0.447 (EV)

Notes: Correlations are significant at the 5% level (two-tailed). *(n.s.)* denotes not statistically significant. The sample size is 25 firms per sector expect in energy. The profitability metric is EBIT, except where noted; EBITDA is used in healthcare due to high depreciation in that sector.

As shown above (Table 1), governance positively correlates with short-term profitability in the regulated sectors (finance and healthcare). In contrast, its strongest associations with long-term value are found in the capital-intensive sectors (energy and industrial). The consumer sector shows weak correlations in both cases, reinforcing that governance is not a primary driver of financial performance in that context. These results empirically support the notion that "one size does not fit all" for corporate governance impact—the benefits of governance manifest in different ways depending on industry dynamics.

5. Discussion

The findings provide nuanced insights into how corporate governance contributes to firm performance across industries. Strong governance pays off through improved short-term profitability in heavily regulated sectors like finance and healthcare. This is intuitive: banks and healthcare companies operate under strict oversight and complex compliance requirements, so effective governance and internal controls enhance efficiency, prevent costly missteps, and bolster earnings. This result shows that governance correlates with higher bank EBIT and aligns with prior observations that prudent governance can curb excessive risk-taking and improve financial outcomes in financial institutions (Brogi & Lagasio, 2019). Similarly, for healthcare firms, robust governance likely facilitates better management of operational processes and regulatory compliance, which improves their bottom line. These sector-specific findings underscore that governance mechanisms, such as diligent boards and transparent practices, can yield immediate tangible benefits when regulatory stakes are high.

In contrast, the consumer sector did not exhibit a strong governance-performance link in the short run. One interpretation is that in consumer-focused businesses, market forces and intangible assets dominate success: factors such as brand equity, marketing strategy, product innovation, and consumer sentiment drive profitability more than internal governance structures. Good governance remains essential as a baseline for preventing failures, but beyond a certain point, it may not noticeably boost quarterly profits in this sector. This does not imply that governance has no value for consumer companies; rather, its value may be more indirect or long-term. The weak correlation aligns with the idea that for firms in dynamic, consumer-driven markets, agility and creativity, often outside the purview of traditional governance metrics, are key performance drivers, potentially diluting the observable effect of governance quality on short-term financial results (Khan, Serafeim & Yoon, 2016).

The most interesting pattern is found in the energy and industrial sectors, where governance quality is strongly linked to enterprise value, unlike in regulated industries, where governance benefits appear quickly through efficiency gains. In these capital-intensive industries, the payoff from governance accrues over a longer horizon. Strong governance in sectors like energy and manufacturing may involve rigorous project evaluation, long-term risk management (e.g., environmental and safety oversight), and strategic investment decisions—actions that might entail significant upfront costs or restraint from pursuing every short-term opportunity. However, investors seem to reward these governance practices with higher valuations, likely because they expect them to lead to more sustainable and stable cash flows in the future. This finding aligns with the perspective that good governance is a critical foundation for long-term value creation in firms requiring significant investments. It echoes Eccles *et al.* (2014), who documented that companies with superior sustainability and governance policies delivered superior long-run stock performance. It also resonates with the Porter & van der Linde (1995) hypothesis that what might appear as a cost (like investing in better governance or environmental compliance) can enhance competitiveness and value in the long term. Energy and industrial companies with strong governance likely avoid value-destroying projects, optimize capital allocation, and mitigate significant risks, achieving higher enterprise values.

The disparate sectoral impacts observed here carry essential implications. They suggest that corporate governance best practices should be tailored to the industry context and the specific performance objectives most relevant to that context. For instance, boards and policymakers in regulated sectors might focus on governance improvements that yield efficiency gains and ensure compliance, thereby boosting profitability and stability. Tools such as rigorous internal auditing, clear risk oversight committees, and strong alignment of executive compensation with compliance goals could be particularly effective for banks and healthcare firms. On the other hand, in sectors like energy and industrials, governance efforts might prioritize strategic guidance, stakeholder engagement, and long-term risk assessments (such as environmental and safety governance), even if these do not immediately translate into higher quarterly profits. The market's recognition of these efforts in valuations suggests that such governance adds credibility and future value—a signal to executives that sacrificing some short-term earnings for long-term governance improvements can be worthwhile.

The results for the consumer sector imply that, while maintaining baseline good governance is necessary to avoid scandals or inefficiencies, extraordinary efforts in governance reforms may not yield substantial payoffs unless accompanied by strategies to drive demand and innovation. If governance is adequate, investors in these companies may prioritize growth prospects and brand strength over incremental differences in governance scores. Companies in this sector should ensure that governance is sound but recognize that performance gains will likely stem from market-oriented initiatives.

Another consideration is that this analysis was cross-sectional and concentrated on correlations; therefore, careful interpretation is warranted. The observed positive correlations do not establish causation; it is plausible that exceptionally profitable or highly regarded firms possess the resources to invest more significantly in governance enhancements. Nevertheless, the patterns that align with the theoretical expectations for each sector substantiate a causal narrative: it is plausible that governance influences performance in ways that correspond with the requisites of each industry. Future research could enhance causal inference by investigating alterations in governance and performance over time or by leveraging regulatory upheavals that affect governance mandates within specific industries.

These findings significantly contribute to theory and practice by illustrating the value of corporate governance. From a theoretical perspective, the results substantiate a contingency view of the effectiveness of corporate governance, aligning with stakeholder theory and resource-based perspectives, which assert that the impact of governance resources is context-dependent (Ioannou & Serafeim, 2012). This concept is expanded upon at the industry level, positing that the value derived from governance mechanisms is not uniform but contingent upon industry-specific conditions, such as regulatory and capital intensity. From a practical perspective, boards and investors may discern that enhancements in governance will yield varying expected benefits, contingent on the sector in question. This understanding can guide the focus of governance reforms and inform strategies for communicating their value to stakeholders. For instance, a chief executive officer in an industrial firm may justify investments in governance (such as enhanced transparency or the incorporation of board expertise in sustainability) by referencing long-term value preservation. Conversely, a chief executive officer of a banking institution may emphasize how improvements in governance can avert compliance failures and enhance efficiency metrics in the short term.

6. Conclusion

This study examines the impact of corporate governance on firm performance in sector-specific contexts, particularly distinguishing between short-term profitability and long-term value creation. Cross-industry analysis of European companies provides clear evidence that the role of governance differs by sector. Strong corporate governance is associated with higher short-term profitability in industries where regulatory and operational oversight, such as finance and healthcare, are paramount. In contrast, in capital-intensive sectors like energy and industrials, strong governance is more strongly linked to enhanced long-term enterprise value, even if the immediate effect on profit metrics is less pronounced. Meanwhile, this research found only a weak link between governance and financial performance in consumer-oriented sectors, suggesting that other competitive factors dominate in the short run.

These findings reinforce that corporate governance should not be viewed as a monolithic value driver but as a context-dependent tool. Companies and their boards should align governance practices with their strategic context. For some, governance improvements will primarily safeguard and enhance current earnings, while for others, the payoff will be in sustained long-term growth and valuation. Investors analyzing firms across industries may also consider that a high governance rating could signify different advantages: in a bank, it might imply prudent management and reliable profits, whereas in an industrial firm, it might signal wise long-term investment stewardship.

From a policy and framework standpoint, these results suggest that broad ESG or governance codes (such as corporate governance guidelines or sustainability frameworks) might be more effective if they allow flexibility in emphasizing industry-specific aspects. Regulators and standard-setters could encourage sector-specific governance best practices, focusing on risk governance in finance, innovation governance in tech/consumer, and stakeholder governance in industries with significant long-term environmental impacts. Such tailoring would recognize that industry realities influence the path from governance to performance.

Finally, this study highlights avenues for further research. Future work could expand the sectoral comparison to other industries, such as technology and telecommunications, and include longitudinal data to assess how governance changes influence performance trajectories. It would also be valuable to examine which subcomponents of governance, such as board independence, shareholder rights, and ESG oversight committees, are most effective in which sectors. As regulatory focus on ESG intensifies—for instance, through initiatives like the European Green Deal (European Commission, 2019) and new corporate sustainability reporting mandates—understanding the nuanced role of governance across sectors will remain a pertinent issue.

Ethics Declaration: The authors confirm that this study did not involve research on human participants or personal data, and no ethical approval was required. The analysis was conducted using publicly available financial and ESG datasets. The authors declare no conflicts of interest in the publication of this research.

AI Declaration: No generative AI or automated writing tools were used in the research or writing of this paper. All content is the original work of the authors.

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