EDITORSIAL: Advances in corporate governance practices

Dear readers!

Corporate governance has gone through three decades of profound changes in terms of new regulations, new practices, and environmental conditions. Many countries drafted guidelines for best corporate governance practices following Cadbury report (Cadbury, 1992). These practices were mainly related to the board of directors (composition and functioning), internal controls, and internal audit. The Enron scandal followed by the collapse of Arthur Andersen, one of the big five audit firms, and the enactment of the "Public Company Accounting Reform and Investor Protection Act" (Sarbanes-Oxley law) in 2002 were other milestones in the evolution of corporate governance. This law brought about significant changes related to public company accounting oversight, auditor independence, financial disclosure, and corporate responsibility. The financial crisis in 2008 started in the United States and has shaken the world economy. This crisis was due to weak corporate governance that led to fraudulent financial reporting and excessive risk-taking. Grove and Victoravich (2012) consider CEO duality, lack of board independence, weak management control systems, short-termism, weak codes of ethics, and opaque disclosures among the main drivers of this crisis. The COVID-19 has consistently shown that firms with better corporate governance and corporate social responsibility practices were the most resilient entities during the first quarter of the pandemic (Ramelli & Wagner, 2020). All these topics are addressed in this collection of high-quality research papers of this year's first issue of Corporate Board: Role, Duties, and Composition.

The first paper, "Strategies for boards of directors to respond to the COVID-19 pandemic" by Hugh Grove, Maclyn Clouse, and Tracy Xu, examines how boards of directors can manage uncertainty in the aftermath of the COVID pandemic, particularly in fulfilling their fiduciary duties towards shareholders and stakeholders. The authors assess the usefulness of tools, systems, and strategies that boards can use to develop sound practices that allow firms to survive and even become more solid in the post-COVID era. More particularly, they focus on "managing uncertainty with visibility, control, and agility practices; risk strategies for non-executive directors; global risk concerns; disruptive risks and opportunities from emerging technologies; boardroom risk advice; and boardroom risk questions".

In a second related paper entitled “Corporate Internet disclosures during the coronavirus pandemic”, Stergios Tasiros, Evangelos Chytis, Panagiota Karametou, and Periklis Tagkas examine Internet corporate disclosures during the COVID-19 pandemic by focusing on the determinants of the extent of disclosure that firms provided on their websites during this recent major health event. In particular, they assess the role played by firm-specific characteristics such as firm size, leverage, profitability, and corporate governance attributes, including board size, ownership concentration, and the separation of chief executive officer and the chair position. The authors self-construct a disclosure index of 70 items for a sample of 40 non-financial Greek firms listed on the Athens Stock Exchange (ASE). They provide evidence that, on average, firms disclosed more information during the pandemic period and that larger, more profitable firms, and those with larger boards of directors disclose more information on their websites. However, leverage, auditing firm size, ownership concentration, and CEO duality do not seem to shape the extent of disclosure on Greek firms’ websites. All these results support the rationale that political cost, legitimacy, signaling, and agency theory explain disclosure decisions during the COVID-19 pandemic in Greece.

In “Organizational cynicism as a moderator variable between ethical leadership and counterproductive behaviors”, Mohamed Ahmed Ali Nemr and Yuhuan Liu assess the relationship between ethical leadership on counterproductive work behaviors and analyze whether it depends on organizational cynicism. The authors survey a stratified random sample of faculty members from Sohag University (Egypt). Using several econometric tools, they show that counterproductive work behaviors decrease with ethical leadership and that organizational cynicism matters in shaping this relationship. More precisely, organizational cynicism modifies this relationship in a way that it is weaker (stronger) when faculty members perceive a higher (lower) level of cynicism. These insightful findings are helpful for universities that have to improve the perception of ethical leadership by faculty members and their assistants. The authors provide many interesting practical recommendations that can limit the negative business behaviors in Egyptian universities.
The paper by Anissa Dakhli is entitled “Corporate budget governance through the operating managers' engagement: Does locus of control matter?” It studies the effect of budgetary participation on job satisfaction, with a particular focus on the moderating role that can be played by the personality variable, locus of control. The author surveys 75 managers of Tunisian hotels using a questionnaire. She provides results consistent with the contingent aspect of budgetary participation by providing evidence that the effect of budgetary participation on job satisfaction is moderated by the locus of control. More precisely, active budgetary participation by middle-level managers in Tunisian hotels helps increase their job satisfaction. This relationship is more effective for internal managers. In other words, those internal managers find that the participative budgeting system satisfactory while internal managers do not perceive this system in a similar way. Additional analyses suggest that managers' personal traits affect the reaction of managers to budgetary participation. Internals are more inclined to be involved in the firm decision process and prefer to participate actively and influence the budgetary decision. External managers, however, have different preferences. They are more favorable to receiving and executing the budget without involvement in its elaboration.

The penultimate paper of the issue is “Current state of corporate governance practices in Colombia” by Sandra Gaitán and Jimmy A. Saravia, who review the current state of corporate governance in Colombia and help readers understand where do we stand in terms of the application of the code of best corporate governance practices. The authors present the evolution of the legal framework of corporate governance in Colombia in the aftermath of the global financial crisis of 2007–2008. In addition, they detail the main corporate governance concerns in that country, including ownership structure, the board of directors, the compensation system, the market for corporate control, and institutional investors' role as active monitors. The authors also present the current situation in terms of corporate social responsibility (CSR) and gauge corporate governance specificities in that context. They conclude that the Colombian government and regulatory authorities have made considerable efforts to improve corporate governance by, among others, drafting a code of best corporate governance practices. However, external corporate governance mechanisms are weak: absence of a market for corporate control and almost no shareholder activism. The results of this study complement the work by Boubaker and Nguyen (2012, 2019), Damijan and Damijan (2019), Boubaker, Nguyen, and Nguyen (2012), and Boubaker, Cumming, and Nguyen (2018).

Last paper of the issue, but not least, is entitled “Revisiting the relationship between board practices and firm performance” by Andrews Owusu. The author focuses on the effect of board practices on the firm performance of Ghanaian firms and contributes to the previous literature in the international context by Aleqab and Ighnaim (2021), Kostyuk and Barros (2018), Basuony, Mohamed, and Al-Baidhani (2014), Kyereboah-Coleman, Adjasi, and Abor (2007), Kyereboah-Coleman and Biekpe (2006), and Kostyuk (2003). He shows that the absence of separation between CEO and chair positions negatively affects firm performance in consistency with the agency view of the firm. Additional analyses provide evidence that firms with smaller boards of directors are associated with better financial performance. Yet, firm performance seems to be not affected by the proportion of non-executive board directors. All in all, the findings suggest that firms should not encourage CEOs to be also at the helm of the board of directors, should have boards with an optimal size between eight and nine members, and make better use of non-executive directors to reach higher levels of financial performance.

I believe that the papers of this issue will be welcomed by experts in the field, academic researchers and professionals alike. These papers use a wide range of methodologies and provide insightful findings that may also trigger future research in various corporate governance challenging issues associated with (the aftermath of) the COVID-19 period.

In closing of this editorial, I would like to thank all the contributors for their intellectual contributions and reviewer for their insightful comments and suggestions. I hope that you will enjoy reading this issue of the journal.

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REFERENCES