EDITORIAL: The impact of digitalisation and ESG issues on corporate governance

Dear readers!

Corporate governance (CG) can be seen as a complex system characterised by specific structures and a different distribution of the rights and responsibilities among participants of the companies (the board of directors, managers, shareholders, and other stakeholders). This system changes with the changing regulatory, economic, technological, and social environment.

Currently, CG is undergoing a profound change as a result of ongoing developments in environmental, social and governance (ESG) issues and digitalisation transformation.

ESG issues have an impact on the entire system of rules, practices, and processes by which a company is directed and controlled. For example, in some jurisdictions, new environmental regulatory constraints are leading to a rethinking of business operations, encouraging and in some cases forcing a transition to non-polluting companies. As a result of these changes, oil companies are increasingly focusing on exploiting renewable energy sources and communicating their ability to run a long-term sustainable business.

Attention to ESG issues also leads to changes in board characteristics (e.g., board diversity, directors’ remuneration). For example, several countries have introduced gender quotas, while many listed companies pay special attention to board diversity (age, ethnicity, gender, etc.) through voluntary initiatives accompanied by a “comply or explain” approach.

Moreover, the parameters used to determine directors’ remuneration are changing. In recent years, directors’ remuneration is often linked to ESG performance and not only to financial performance.

There is also an increasing focus on ESG reporting. Sustainability reporting is a means to increase transparency and improve the uniformity and comparability of ESG information among companies. The development of sustainability reporting standards can improve the measurement, monitoring and management of corporate performances and enhance their impact on society and economies (CSR Europe & Global Reporting Initiative [GRI], 2017). There are regional and global initiatives on sustainability standards. At the European level, the European Union (EU) is developing European Sustainability Reporting Standards (ESRS) to be mandatorily applied to the sustainability reports of European companies, while at the global level the International Sustainability Standards Board (ISSB), with the support of the International Organization of Securities Commissions (IOSCO), is developing international sustainability reporting standards aimed particularly at listed companies. ISSB is part of the International Financial Reporting Standards (IFRS) Foundation, the global accounting standard setter.

This is the context in which to read the articles by Ilaria Galavotti and Carlotta D’Este and Caroline Talbot, Michel Coulmont, and Sylvie Berthelot published in this issue of the journal.
Ilaria Galavotti and Carlotta D’Este analyse the impact of female chief executive officers (CEOs) on female representation on the board of directors, finding a negative association between female CEOs and the number of female directors.

Caroline Talbot, Michel Coulmont, and Sylvie Berthelot analyse the existence of ethnic diversity on the board of directors in the Canadian context. The authors find a positive impact of ethnic and gender diversity on corporate performance.

CG is changing not only because of ESG issues but also because of digitalisation transformation.

Several studies analyse the impact of digitalisation on CG by highlighting the increasing use of blockchain-based technologies, virtual meetings, real-time documentation, big data analysis, artificial intelligence (AI), digital reporting (inline XBRL), cyber security, etc.

As noted by Picot et al. (2023), decentralisation, networking, the merging of the physical and virtual worlds and the increasing interaction between human and AI are (re)shaping organisation and leadership. In other words, the use of digital technologies is changing the way of working, fostering transparency and timeliness of communication and enabling decision-making based on a greater mass of data.

Some studies find that digitalisation fosters board-stakeholder relations by mitigating principal-agent conflict (Ivaninskiy et al., 2023; Ivaninskiy & Ivashkovskaya, 2022).

This is the context in which to consider the article by Anacleto Correia and Pedro B. Água published in this issue of the journal. These authors examine the intersection between CG and AI by addressing the question of how AI can be leveraged to improve ethical and transparent decision-making within the corporate environment. Anacleto Correia and Pedro B. Água propose a new conceptual framework, rooted in the principles of separation of ownership and control and data ethics.

Digitisation transformation and ESG issues both have a strong impact on CG. However, few studies investigate whether digitisation transformation and ESG issues have a synergistic effect on CG mechanisms (Lu et al., 2023) and thus whether these factors promote common changes in CG mechanisms. The question is whether ECG and digitisation should be considered independent variables with respect to the changes they cause in CG mechanisms. This is an area of study that deserves to be explored.

Marco Venuti, Assoc. Prof., Pegaso University, Naples, Italy, Editorial Board member, Corporate Board: Role, Duties and Composition journal

REFERENCES


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