EDITORIAL: New trends and challenges in (a responsible) corporate governance

Dear readers!

Welcome to this issue of Corporate Governance and Sustainability Review.

The papers published in this issue of the journal present an heterogeneous variety of topics in international research, in line with the aims and scope of the journal, devoted to: corporate governance, firm performance and executive compensation; social performance rating in co-operatives; sustainable development goals, CSR, consumer data protection policy; stock option plans; online customers’ rating and firms’ performance in the hotel industry; reputational threats and their financial consequences for decision-makers; climate change governance mechanisms and sustainable food productions.

Bertrand Lememnicier, Joël Hermet, and Duraisamy Palanigounder test and examine the impact of governance and firm performance, by using descriptive and econometric analysis, on executive compensation in the defense firms in comparison with the firms from a “peer group” of the non-defense sector. Several studies have examined theoretically as well as empirically the issues pertaining to CEOs’ pay or compensation over the past several decades (Aggarwal & Samwick, 1999; Carvalhal da Silva & Câmara Leal, 2006; Devers, Cannella, Reilly, & Yoder, 2007; Zeitun, 2009; Gupta, Kennedy, & Weaver, 2009; Gao & Li, 2015; Hill, Lopez, & Reitenga, 2016; Kostyuk, 2019; Onyina & Gyanor, 2019). However, the research examining the determinants of executive pay in the defense industry is presented for the first time; therefore, it could bring significant value addition to the existing literature.

The study by Daniel Kinyuira is focused on the social performance rating in savings and credit co-operatives societies in Kenya. Corporate social performance is a critical determinant for superior and sustainable performance in all organizations (Porter & Kramer, 2006; Carroll & Shabana, 2010; Kemper, Schilke, Reimann, Wang, & Brettel, 2013) and its strategic management could make wealth creation more effective and fairer (Kinyuira, 2017). This study, on the one hand, enriches the scanty research on social performance management in co-operatives; on the other hand, its findings provide helpful suggestions to co-operatives in order to manage stakeholders’ social needs better and consequently improve the sustainable performance of cooperatives.

Shirley Mo-Ching Yeung, by examining the social dimension policy of 10 China-based listed companies (2006 to 2017) in the Bloomberg database, provides a model for promoting a sustainable development mindset with employee CSR policy/consumer data protection relayed social policy for advancing quality management. Building a sustainable development mindset by promoting the growth of management and employees intelligence in understanding their business through an economic, social and environmental focus (Kavadias, Ladas, & Loch, 2016; Kassel, Rimanoczy, & Mitchell, 2016) is one of the new challenges that corporate governance and management accounting research will face in the coming years to contribute further to the development of effective corporate governance systems.

In their paper, João Silva and André Feiteiro, focus on stock options plans as a solution to agency issues. Although many previous theoretical studies and empirical researches in worldwide literature (Sigler, 2009) have addressed the structure of modern corporations, the nature of agency problems and the use of stock option schemes in reducing agency problems (Jensen & Meckling, 1976; Liljeblom, Pasternack, & Rosenberg, 2011), this paper reviews a number of similar instruments as well as different categories of stock options, and, interestingly, concludes that governance mechanisms can be adapted to mitigate the weaknesses of stock options plans and to overcome the criticism regarding their design.

The paper by Md. Jahidur Rahman and Xu Yufei investigates the impact of online rating on hotel performance in China. Investigating the valence of online reviews and modeling hotel attributes and performance is still a rather novel approach (Phillips, Barnes, Zigian, & Schegg, 2016). Nowadays, hotels are greatly dependent on a limited number of reservation platforms (e.g., TripAdvisor, Trivago, Booking.com). Guest evaluations are the main feature of these platforms. These evaluations are translated into ratings and rankings, which have a significant effect on demand for bookings, and, therefore, on the hotel’s performance. As a consequence, reputation management in the hospitality industry has become a crucial variable for hotel managers. However, empirical research has so far marginally investigated whether hotels are able to appropriate the economic value that the use of social media features and infomediation platforms can bring. Studies in this field effectively contribute to theories of valence on hotel performance and present salient implications for practitioners to enhance performance (Chevalier & Mayzlin, 2006; Duan, Gu, & Whinston, 2008; Liu & Park, 2015).

In their paper, Jesus R. Jimenez-Andrade and Timothy J. Fogarty have studied and analyzed the impact of equity-based incentive compensation mechanisms on executives’ responses to scandals. The findings contribute to the academic literature by providing valuable information regarding managerial responses to reputationally sensitive events, suggesting that equity compensation packages can increase the firms’ risk exposure because of the executives’ behavioral implications (Hoskisson, Chirico, Zygoun, & Gambeta, 2017; Shaikh, Drra, & Hassine, 2019; Shi, Connelly, Mackey, & Gupta, 2019; Connelly, Lee, Tihanyi, Certo, & Johnson, 2019; Caton, Goh, & Ke, 2019), and then emphasizing the “skin in the game” aspect.
Robert Ddamulira addresses and examines the governance challenges associated with managing the impacts of climate change on food production, with a major focus on East Africa. Improved governance is necessary to balance competing policy objectives of food production, economic development, climate change mitigation, and ecosystem conservation (Ewers, 2006; Godfray, Pretty, Thomas, Warham, & Beddington, 2011; Newton, Agrawal, & Wollenberg, 2013).

Finally, Eric Pichet presents an interesting review of the book titled “Challenges and Opportunities in Italian Corporate Governance”, which was edited by Salvatore Esposito De Falco, Federico Alvino, Nicola Cucari, Luigi Lepore (Virtus Interpress, 2019). The book examines the corporate governance issues from different perspectives (law, business management, accounting and practitioners), assessing the progress made by Italian companies in improving corporate governance and the gaps that remain contributing to the previous papers by Rizzato, Busso, Devalle, and Zerbetto (2018), Kostyuk, Mozghovyi, and Govorun, (2018), De Luca and Paolone (2019).

The above issues provide an interesting overview of the forces that are driving change in the corporate governance landscape. However, there are regulatory and investor pressures for broad and deep governance changes which will become key focus areas within academic research to contribute further to the development of effective corporate governance systems. These changes and trends are particularly focused on (among others):

1) Environmental, social responsibility and governance (ESRG) issues, and, in particular, those related to climate change and sustainability continue to be critical issues globally. These issues have become a fundamental part of how investors evaluate companies: both what they do and how they disclose their approach to ESRG and relative performance.

2) Corporate governance in the digital age and/or digital mindset in the boardrooms. The digital transformation over the last few years and the realignment of existing technology (e.g., the mobile internet, connectivity, automation and artificial intelligence) allow companies to compete effectively in an increasingly global economy and are turning traditional governance structures, tools and processes in the more ‘digitally-minded’ companies.

3) Corporate reputation management as a strategic and intangible corporate asset. Creating a clear and recognizable identity and managing company reputation has always been key business objectives (Fombrun, 1996). The growing demand for corporate transparency and social responsibility directly affect both the strategic behavior patterns of the companies and the manner in which they perform decision-making and planning functions (Adeosun & Ganiyu, 2013).

In this ever-changing corporate governance landscape, future research could deepen the characteristics of the ‘new generation’ governance models through which companies attempt to balance long-term value creation approach and responsibilities to shareholders, risks and ethical obligations to their employees, business partners, customers, communities in an age of transparency and accountability.

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REFERENCES


