EDITORIAL: Researching the relations between governance characteristics and sustainability

Dear readers!

I am pleased to introduce to you the first issue of 2020 of Corporate Governance and Sustainability Review.

The seven papers included in it discuss very topical issues ranging from the influence of corporate governance on social and environmental responsibility to the impact of audit committee characteristics on earning management; from the relationship between quality of governance and quality of assets to the linkage between regulatory governance and financial stability of nations. These are issues debated in the theoretical and empirical studies of recent years (Grove & Clouse, 2018; Aras & Crowther, 2008; Arora & Dharwadkar, 2011; Grove & Clouse, 2017; Ahmad, Rashid, & Gow, 2017; Kostyuk & Barros, 2018; Klein, 2002; Bukit & Iskandar, 2009; Bhauuik & Piesse, 2008; Masciandaro & Quintyn, 2007) that the authors of the articles in this issue examine with reference to contexts not yet explored and/or giving rise to a number of interesting and original conclusions.

The first paper, by Kali Charan Sabat and Bala Krishnamoorthy, is focussed on the impact that the corporate environmentally and socially responsible initiatives have on the economic growth of the firms. The authors analyze 48 Indian manufacturing listed companies to verify: 1) the direct relationship between corporate governance, environmental and social factors (dependent variables) and economic returns of the companies (independent variable); 2) the role of corporate governance as a mediator to the relationships between green supply chain management, socially responsible supply chain management and firms’ economic return. The findings show that socially responsible supply chain management positively influence profitability. Conversely, environmental supply chain management does not generate economic returns in financial terms. This, in the opinion of the author, “could be one of the reasons for the slow adoption of green supply chain management practices in India” (p. 13). Finally, the results highlight a weak relationship between corporate governance and economic performance, on the one hand, the capacity of corporate governance to mediate the influence of social practices on firm’s financial performance on the other.

The second paper, by Amer Al Fadli, is still focussed on the issues of corporate governance and social responsibility initiatives. The theoretical and empirical literature has dealt extensively with these issues (Gnan, Himha, Monteduro, & Scarozza, 2013; Kostyuk, A., Kostyuk, O., Mozghovy, & Kravchenko, 2013; Janggu, Darius, Zain, & Sawani, 2014; Michelon & Parigi, 2012; Abdullah, Mohamad, & Mokhtar, 2011; Ahmad, Rashid, & Gow, 2017; Eranmer, 2017) which are, however, always current and interesting for the suggestions they provide to companies and regulators. Through a longitudinal data analysis conducted on 80 non-financial publicly listed (in the Amman Stock Exchange, Jordan) companies in industrial and service sectors, the author investigates the relationship between governance factors (board size, presence of an audit committee on the board, and CEO duality) and level of Corporate Social Responsibility reporting. The findings show a positive influence of board size and the presence of an audit committee on the level of CSR reporting. The study proves that the level of CSR reporting has significantly improved in Jordan since issuing the corporate governance code in 2009; consequently, establishing guidelines for a CSR reporting framework may help companies (in the Middle East and developing countries) to improve and legitimise their action and attract new investors (Alrousan, Bader, & Abuamoud, 2015).

Corporate governance factors influence also the financial reporting quality (Cohen, Krishnamoorthy, & Wright, 2017; Melis, 2003). Sana Masmoudi Mardessi and Yosra Makni Fourati, in the third paper, provide evidence that audit committee independence and having female members reduce real earnings management. The analysis is conducted on a sample of 124 companies listed in the Amsterdam Stock Exchange and the study contributes to the literature because the Dutch context is not yet explored especially following the issue of new Dutch Corporate Governance Code; the research investigates a legal and institutional environment of a small economy, like the Netherlands, and the findings can represent a benchmark for studies in countries with similar economic and institutional structures; the results can promote increased participation of women on audit committee (Salleh, Hashim, & Mohamad, 2012).

Wasiu Ajani Musa, Ramat Titilayo Salman, Ibrahim Olayiwola Amoo, and Muhammed Lawal Subair investigate the relationship between firm-specific characteristics and audit fees of quoted consumer goods firms in Nigeria. The study proves that audit fees are affected by some firm-specific factors as auditee size, auditee risk, auditee profitability, and IFRS adoption. Particularly, auditee risk and auditee profitability are negatively related to audit fees; auditee size is positively related to audit fees, and also the adoption of IFRS in 2012 by all public quoted firms in Nigeria affected audit fees significantly. Based on the results, the authors suggest that firms implement “a corporate governance framework of rules and practices by which the board of directors ensures accountability, fairness, and transparency in the consumer goods sector since profitability [and risk] behave negatively with audit fees” (p. 53).

The study by Chirag Malik and Sonali Yadav aims to explore the asymmetric effects of time-varying volatility in sustainability indexes in India (Greenex, Carbonex, and ESG index). The findings of this research are consistent with those of Makridakis, Wheelwright and Hyndman (1998), provide “the stakeholder like
government, corporates, investors and employees a forward-looking approach to be inclined to towards sustainability” (p. 63), show “evidence in support of the concept of sustainability by looking at the shareholder’s perspective” (p. 63).

Vinay Kandpal analyzes and identifies the causes that affect non-performing assets in the Indian public and private sector banks. The paper highlights that the lack of frequent interaction with borrowers, the manipulation of income or financial statements by borrowers, the death of earning members of the family may affect non-performing assets. Disparities are found between private sector banks and public sector banks. The latter perform better than private sector banks and this indicates that public sector banks are more efficient in assets management policy. Moreover, strong governance practices and strong banking regulations contribute to solving the problem of NPAs (Ben, Patrick, & Caleb, 2015; Nyor & Mejabi, 2013).

The paper by Tarika Singh Sikarwar and Saurav Sharma aims to find out in a cross-country context if a relationship between the quality of regulatory governance and financial stability exists. Generally, the findings show a weak association between the quality of regulatory governance and financial stability for nations examined, but supervisory independence and accountability and the role of central banks contribute to the financial stability of nations. This indicates to policymakers the importance of improving the governance practices adopted by financial system regulators and supervisors (Das, Quintyn, & Chenard, 2004).

A common thread linking the papers briefly presented is their focus on the relationship between governance characteristics and sustainability. Sustainability is a complex concept (Hart & Dowell, 2011; Hart & Milstein, 2003) and a standardized definition of corporate sustainability does not exist (Montiel & Delgado-Ceballos, 2014). However, most scholars agree that sustainable development (of a firm or nation) has to be based on economic growth, financial stability, social equity, environmental integrity (Bansal, 2005; Hart & Milstein, 2003; Szekely & Knirsch, 2007; Neubaum & Zahra, 2006). Essentially, the papers of this issue investigate the relationship between governance and the ability of firms or nations to achieve sustainable development and provide suggestions and further insights to firms, nations, regulators for improving governance practices.

Enjoy the reading!

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REFERENCES


