EDITORIAL: Corporate governance dynamics and financial stability in a world of crisis

Dear readers!

We are pleased to share with you the recent issue of the journal *Corporate Governance and Organizational Behavior Review*.

Corporate governance has become a well-discussed and controversial topic in the business press. Newspapers from time to another time produce detailed accounts of corporate fraud, financial scandals, and other organizational failures. The common factor of such failures is the assumption that somehow corporate governance is to blame. We can assure that strategic oversight is crucial, but the manner in which a company board is expected to perform this function is still less clear and need more study. This is major confusion because it is not the board's responsibility to develop the strategy it is the management's responsibility. Consensus holds that the board is expected to scrutinize the strategy to make sure that it is appropriate for the company's shareholders and stakeholders and accordingly to monitor the contribution of corporate activities to the strategic plan (Larcker & Barian, 2021).

Not every governance question has been the subject of empirical study, nor is every question amenable to a simple solution. There are gaps in our knowledge that will need to be addressed by further study and empirical research. Further research in corporate governance would enable and support practitioners to make sound and rational decisions. Therefore, we believe that it is important for organizations to take a deliberate approach in designing governance systems to meet their strategy, performance measurement, and risk management.

Financial stability can be achieved only by the interaction of three basic pillars: sound leadership at the firm level, strong prudential regulation and supervision, and effective market discipline. These three elements provide the foundation for the health and soundness of the financial system as a whole and shape the foundation for financial health across many companies in different industries (Alber, 2019).

Sound leadership at the firm level is the first bulwark against financial system instability. It begins with good corporate governance: capable and experienced directors and management, a coherent strategy and business plan, and clear lines of responsibility and accountability.

To ensure financial stability, the execution of the overall objectives of the firm must be supported by rigorous internal controls and effective risk management. An effective internal control apparatus is critical to provide reasonable assurance that the information produced by the organization is timely and reliable and that errors and irregularities are discovered and corrected promptly. Such an apparatus is also needed to promote the firm's operational efficiency and to ensure compliance with managerial policies, laws, regulations, and sound fiduciary principles.

Effective risk management is based on a foundation of good corporate governance and rigorous internal controls. Taking calculated risks is part of any business enterprise (Miah & Sharmeen, 2015). That is well understood. At the same time, each firm needs to have in place the technical systems and management processes necessary not only to identify the risks associated with its activities but also to effectively measure, monitor, and control them. An effective risk management and control structure are not sufficient, however, if it is not accompanied by an institutional culture that ensures that written policies and procedures are actually translated into practice. Ultimately, a firm's culture is determined by the board of directors and the senior management it installs. In particular, the actions of senior management and the consistency of their decisions and behavior with the values and principles they articulate are critical to shaping firm culture. It is vital that managers make certain that their commitment to an environment that includes effective risk management and rigorous controls filters fully down the line to all employees in their organization (Louati & Boujelbene, 2015).

The pandemic of COVID-19 and other financial crisis have led to a reexamination of corporate governance practices at banks. Policy makers questioning the extent to which managerial entrenchment and the failure of the board of directors to monitor executives may have led to additional risk-taking and financial instability. Till now, among researchers, it is not obvious if the implementation of good governance practices should lead to less risk-taking. It has been seen that corporate governance that aligns shareholders' interests and managerial incentives can potentially result in more risk-taking as shareholders face payoffs that are restricted on the downside by limited liability (Anginer, Demirguc-Kunt, Huizinga, & Ma, 2018).

Banks are supported by the financial safety net when they are in financial distress. Banks can benefit from state guarantees such as deposit insurance, liquidity, and capital support that can prevent their failures (Berger & Humphrey, 1997).

We hope that the readers of the journal will find this issue worth reading.

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