BOOK REVIEW: "BOARD OF DIRECTORS AND COMPANY PERFORMANCE: AN INTERNATIONAL OUTLOOK"

by

William Megginson, Pablo de Andres, Marina Brogi, and Dmitriy Govorun

(Virtus Interpress, 2019)

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The book *"Board of Directors and Company Performance: An International Outlook"* edited by Megginson, de Andres, Brogi, and Govorun in 2019 examines the state of regulations and the studies about corporate governance (CG), boards of directors, and company performance in 11 countries.

At the international level, the G20 and Organisation for Economic Co-operation and Development (OECD, 2015) consider CG to be essential for the development of good governance practices. Despite the shared recognition of the importance of CG, currently, there is not a single definition. This term has been defined by many Authors and organizations in different ways. In this book, Vieira and Neiva (Chapter 4) and Alleyne and Thompson (Chapter 8) provide some examples of the wide range of definitions provided.

The proliferation of definitions stems from the relevance given to the different aspects of CG. For the purpose of this book, in a wide perspective, CG can be considered as "a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined" (OECD, 2015).

Thus, the CG can be seen as a complex system characterized 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).

CG models depend on laws, regulations, and institutions (La Porta, Lopez-de-Silanes, Shleifer, and Vishny, 1998), but may also be affected by other factors, such as culture and socially constructed systems of norms, values, beliefs, and definitions (Suchman, 1995). However, different models of corporate systems may encompass norms of good governance (OECD, 2015).

From this perspective, this book provides an overview of the existing CG models by analysing the national legal frameworks, as well as the main features and practices implemented by companies in 11 countries, 7 of which — Australia, Greece, Italy, Portugal, Spain, Turkey, and the United States — are members of the OECD, while the remaining ones are the emerging market nations of Barbados, Ghana, Jordan, and the UAE.

The description of the specific national context permits to compare the existing models in different countries at the same time (the year 2019) providing a set of data that may help the reader to evaluate the modernity of some studies. As a matter of fact, CG research needs to be contextualised. Some findings may lose relevance over time changing the specific institutional contexts taken into consideration.

The change in the investors' protection regulation which occurred years ago in Italy can be taken as an example of this situation. La Porta et al. (1998) considered Italy as a country with weak investors' protection whilst, in 2012, OECD sustained that the same country had a strong investors' protection. In a few years, Italy has passed from weak investors' protection to strong investors' protection for the listed companies after the introduction of new specific laws and regulations regarding, *inter alia*: independent directors, related parties' transactions, internal and external audits, financial statements, committees' structure, and criminal sanctions. Thus, nowadays the findings of research based on the assumption that Italy had weak investors' protection for the listed companies may no longer be relevant.

The chapters of this book cover different aspects of CG, devoting a primary focus on the board of directors, which is considered by Brogi in the Foreword as "the very heart of corporate governance".

The Authors examine the different board characteristics (e.g., the board size, board independence, CEO/chair duality, busy directors, board diversity, directors' compensation and ownership, and committee structure) by carrying out a review of empirical studies about the existing relationship between the above variables and company performance at the national level.

These relations have been mainly investigated in developed countries (Alqatan, Chbib, & Hussainey, 2019), especially in the United States, while still relatively unexplored in the context of developing countries (Arora & Sharma, 2016; Alanazi, 2019).

In Chapter 1 of this book, Bolt examines the impact of board structure on company performance in the United States finding the existence of a relation only regarding some board characteristics.

Research shows that in the United States:

1) smaller boards generally lead to better firm performance;
2) busy directors lead to worse company performance;
3) directors' compensation and stock ownership are associated with better company performance and higher firm value;
4) more independent committees are associated with higher company value.

From Chapters 7 to 11, Owusu, Ghazalat, Otman, and Sener provide evidence of the limited number of studies undertaken on the boards of directors and performance in developing countries.

Furthermore, some Authors of this book directly carried out empirical research.

In Chapter 3a, Pucheta-Martinez and Inmaculada Bel-Oms investigate the impact of some board characteristics on the company value in Spain. The Authors find that the institutional, independent, and female directors on boards and well-paid board members increase company performance, while the presence of an executive committee negatively affects firm value. The institutional directors are the directors appointed by institutional investors.

In Chapter 10, Otman explores the effect of the board of directors on company performance in an emerging market, such as the UAE. The Author finds that board composition, audit

committee independence, and dual CEO/chair have a positive relationship with company performance. Instead, according to this study, there is no significant relationship between board size and company performance.

This book also faces the question of how and by which criteria, boards' performance should be measured.

In Chapter 5, Rix outlines the evolution of Australian regulation highlighting the increasing emphasis on environmental and social responsibility and long-sustainable value. According to existing local regulations, "A listed entity should instill and continually reinforce a culture across the organisation of acting lawfully, ethically and in a socially responsible manner" (Australian Securities Exchange [ASX], 2018, p. 25).

Rix raises the question of when the interests of stakeholders, other than shareholders and investors, are genuinely taken into consideration in the decision-making and actions arising from director boards. The Author also underlines the issue of how company directors should be remunerated "because profit, share price and dividend can no longer be taken as the sole or even most important measures of a company's performance at least in the short term".

These issues are hotly debated not only in literature but also at the institutional level. In several countries, the issuance of new laws and regulations (regarding, for example, gender issues, sustainability reporting, sustainable governance, and ESG rating) are having repercussions on the structure of the boards and the same meaning of company performance (no longer limited to financial aspects).

From this perspective, a new edition of this book is desirable so as to have a view of the current state of regulations in several countries and the most recent findings on the impact of the board of directors on company performance at the local level. A new version of this book would be enriched with the recent research strands regarding the board of directors topic and a wider adoption of theoretical approaches other than the dominant agent theory, such as stewardship theory, institutional theory, resource dependence theory, and so on.

A book more focused on publicly relevant companies, such as listed companies, would allow us to appreciate if and how a process of convergence on the CG practices is in progress in the light of the OECD (2015) recommendations and the financial markets pressure. The fact that most academic studies are based on listed companies would make it easier to identify the existence of conclusive or inconclusive evidence of the effects of board characteristics on firm performance in the specific countries examined.

After all, these kinds of studies provide a path that allows the reader to understand and compare how well the CG models analysed perform. This set of information can be used by other scholars to build and implement their studies, providing a contribution to the development of the academic research on CG, board of directors and company performance.

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