

EDITORIAL: Coordination between financial reporting quality, investors' utility function, social legitimacy, digitalization, and judicial independence

Dear readers!

On behalf of the Editorial team, I feel proud to introduce the first issue of the *Business Performance Review* in 2024.

The current issue is comprised of scholarly articles falling in the domain of a wide range of research themes, for example, financial market performance, investment strategies, corporate governance characteristics, financial reporting quality, corporate social responsibility (CSR), corruption, and judicial independence in the context of foreign direct investment (FDI). All the articles published in the current issue have highlighted interesting, diverse, and thought-provoking research problems.

The extant literature has evolved with respect to business performance measures such as historic accounting measures, stock market-based financial performance measures, risk-adjusted financial indicators, non-financial performance measures, and sustainable performance measures. Furthermore, research in developing business performance measures has also incorporated firm-level, and industry-specific characteristics as well as the effects of macroeconomic variables. These developments have made business performance measures fair, objective, and comparative. This process is ongoing, and it is a heartening development. The inclusion of business relationships, reputation, brand image, managerial practices, digitalization, and environmental, social, and governance, amongst others, have further enlarged the scope of discourses pertaining to business performance measures. Nonetheless, the discipline of business performance is not free from conflicts and contradictions. Corporate managers can find inter-, and intra-stakeholder conflicts as reflected through certain business performance measures. Similar contradictions can be witnessed when studying and comparing short-, and long-term performance measures. On a positive note, these conflicts, and contradictions with respect to business performance underline the symptoms of a healthy discipline.

The abovementioned conflicts and contradictions related to business performance have led to a new research area of business performance risk management, which is broader and deeper than traditional business risk management discipline. The dangers of geopolitical challenges, environmental calamities, and health risks and their devastating consequences have necessitated corporate leaders to follow a more proactive, forward-looking, and visionary approach to risk management with respect to business

decision-making and business performance systems. Therefore, the quality of corporate leadership has become even more strategic due to the changing dynamics of risks.

In the current issue, the first article “*Can equity mutual funds outperform the benchmark and simple passive portfolios?*” by *Adedeji Ajadi* evaluates the risk-adjusted performance of equity mutual funds in Nigeria against the market benchmark and two alternative passive portfolios available to investors for the period 2012–2021. Various risk-adjusted performance measures including the Treynor ratio, Sharpe ratio, Jensen’s alpha, information ratio, Modigliani-Modigliani measure, Sortino ratio, and the Fama-French 3-factor regression model, have been analysed to check the robustness of empirical findings. The findings show that the equity mutual fund portfolio does not generate excess risk-adjusted returns and it underperforms against the passive portfolios. Nonetheless, mutual fund portfolios not only provide higher returns but also facilitate retail investors to reap the benefits of much-needed low-cost diversification.

The second article “*Company-specific financial and corporate governance factors affecting the quality of earnings: Empirical study on the Spanish stock market*” by *Elen Sargsyan* and *Lena A. Seissian* aims to explore the quality of earnings quality by analysing several company-specific financial, and corporate governance variables. The study also uses different measures of earnings quality to check the robustness of the results.

The third article “*Mandatory corporate social responsibility by Indian companies: A case of isomorphism due to social need or regulation?*” by *Chitresh Kumar* and *Anirban Ganguly* explores the isomorphic nature of CSR expenditure for Indian companies. This mixed method study is inclusive of Herfindahl-Hirschman Index (HHI) and Shannon-Weiner Index (SWI) along with interviews of 29 managers of sample firms responsible for the CSR practices. The study reveals that isomorphism in Indian companies is a reflection of long-term social legitimacy-seeking behaviour.

The last article “*Digitalization and foreign direct investment performance: The moderating role of corruption and judicial independence*” by *Achraf Guidara* investigates the relationship between digitalization and FDI and tests whether corruption and judicial independence moderate the aforesaid relationship. The sample is comprised of 114 countries for the year 2016. The World Bank’s Digital Adoption Index (DAI) has been used to form digitalization proxies. The findings disclose that higher levels of digitalization attract more FDIs in the countries having lower levels of corruption and higher levels of judicial independence, however, the abovementioned favourable outcome does not occur in the countries struggling with higher levels of corruption and lower levels of judicial independence.

I hope that scholars in the relevant disciplines will find all the published articles in the current issue highly useful and they will utilize the contributions, and overcome the limitations identified in these publications in their future research endeavours.

My sincere thanks and best wishes to the authors, readers, reviewers, editorial team, and support team of Virtus Interpress.

*Dr. Shab Hundal,
Senior Lecturer (Financial Management),
Research Director (School of Business),
JAMK University of Applied Sciences, Jyväskylä, Finland,
Editorial Board Member, Business Performance Review*