CORPORATE GOVERNANCE, OWNERSHIP AND CONTROL: A REVIEW OF RECENT SCHOLARLY RESEARCH

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Abstract

This manuscript is aimed at highlighting the most recent trends in corporate governance, ownership and control based on the manuscripts presented at the international conference "Corporate Governance, Ownership and Control" that took place in Rome on February 27, 2018. We have also used reputable papers published in the relevant academic journals in the past to support the arguments stated by the authors of the papers, presented at the conference. This paper covers a wide range of corporate governance topics in corporate ownership and control toward corporate governance mechanisms, such as board of directors, the board diversity, directors' remuneration, firm performance, auditing and accounting, etc. We saw a growing interest of researchers to widen the scope of their major research to link it to corporate ownership and control issues. Currently, corporate governance research follows two major routs: classical empirical corporate governance research and multidisciplinary research aimed at findings non-conventional methods to solution of existing problems.

Keywords: Corporate Governance, Corporate Ownership, Corporate Control, Board of Directors, Auditing, Accounting

1. INTRODUCTION

The main purpose of the conference was to provide the platform for academics and practitioners from many countries of the world to discuss the oldest issue of corporate governance - issue of separation of ownership and control. Key focus of the event was on a broad range of cornerstone issues, i.e. board of directors, corporate control, executive compensation, audit, financial reporting, conflict of interest, shareholder rights, etc.

Despite an extreme for Rome weather conditions, about 50 experts representing all parts of the world gathered with the aim to take part in the conference. The conference started with welcome remarks of the hosts of the conference and organizing committee: Alberto Pastore, Sapienza University of Rome, President of SIMA, Italy; Salvatore Esposito De Falco, co-chair of the conference, Sapienza University of Rome, Italy; Antonio Renzi, Sapienza University of Rome, Italy; and Yaroslav Mozghovyi, representative of Prof. Alex Kostyuk, co-chair of the conference, Virtus GCCG, Ukraine. Speakers wished the participants productive work and expressed the hope that everyone will contribute to the discussion of important issues, and the conference will stimulate the strengthening of the existing network of researches in corporate governance.

Then the floor was given to the first keynote speaker. Alessandro Zattoni, Professor of Strategy, Department of Business and Management, LUISS, Italy. He shared his view on corporate governance scientific research through his experience as a member of editorial boards. He raised the topic of how to find new solutions in exploring corporate governance. He outlined existing "classic" methods used by scholars and pointed out trends in research (Bonardo, Paleari & Vismara, 2007; Basuony, Mohamed & Al-Baidhani, 2014; Guerra, Fischmann & Machado Filho, 2008). Modelling and metrics were also under the discussion among other important aspects. He also pointed out the issues of data, databases access and the issues of capturing the long-term effects in studies.

Speaker admitted that corporate governance may be more complex than simple metrics can describe, and he offered to look for new ideas in disciplines nearby the classical way of researching. Prof. Zattoni continued with the interdisciplinary issues and the issues of the perceptions in researching corporate governance. He advised trying to publish in different disciplines, in different journals using various methods for exploring corporate governance. This may add value to studies and open a new link between theories. It is a good chance to create a new piece between existing worlds. The key message is that we still have enough resources and instruments to study the topic deeper.

The second keynote speaker Cesario Mateus, Associate Professor in Finance and Banking, Business School, University of Greenwich, London, UK continued the discussion about corporate governance research. He proposed to look for different perspective on boards, remuneration and corporate governance – what happens in the real world of financial institutions? His presentation was based on the recent project aimed to highlight the set of variables which is able to characterize well-performed boards of directors in various countries. Speaker stressed that the environment is changing, trends influence boards' composition (Velte, 2017; Abdulsamad, Yusoff & Lasyoud, 2018; Abor & Biekpe, 2006). Many variables have been taken into account while modelling. He shared his insights about what happens in the UK context as it is only a part of the whole scope of countries for the study. The role of the boards in bad decisions of financial institutions was discussed in Q&A session. Prof. Mateus pointed out that more regulation is probably needed. Regulation in corporate governance is not the only solution. Of course, the role of mutual funds and disclosure should be also under the attention.

This review is structured in the following way: the main body of the paper is divided into 6 chapters, each covering a separate topic within the corporate governance field: corporate governance and family ownership, corporate governance, board of directors and corporate control, corporate governance, risks and firm performance, corporate governance, regulation and law, corporate governance and financial markets, corporate governance in banking institutions and finally corporate governance, accounting and audit. The paper concludes with the brief analysis of the results.

2. REVIEW OF MAJOR RECENT TRENDS IN SCHOLARLY RESEARCH IN CORPORATE GOVERNANCE

2.1. Corporate governance and family ownership

Parallel session "Corporate governance and family ownership" was chaired by Giunluca Vagnani, Sapienza University of Rome, Italy. Sílvia Ferreira Jorge representing University of Aveiro – GOVCOPP in Portugal presented a study on successor selection in family firms based on a game theory approach. Silvia and her co-authors modelled games based on the role that the emotional factors, as well as the founder's governance approach, have on successor selection in family firms. The results demonstrated that the emotional factors determine the successor outcome. The founder's governance approach is essential to ensure firm continuity as well as secure that his preferred successor is indeed appointed successor.

Mariasole Bannò from the University of Brescia, Italy together with the co-authors following the insight from the Upper Echelon Theory investigated if and how CEO characteristics impact innovation in family firms (Huse, 2005; Ulrich, 2018; Chouaibi, Boujelbene & Affes, 2009). Researchers tested empirically their hypotheses using a sample of 251 Italian companies to investigate the impact of CEO dimensions on the propensity to innovate.

The next presentation was delivered by Victor Barros and Joaquim Miranda Sarmento from ISEG – Lisbon School of Economics and Management, ADVANCE/CSG, Universidade de Lisboa, Portugal who analysed the impact of privatizations on firm's capital structure, using a sample of 574 firm-year observations of privatized firms in Europe. Their results suggest that there is no evidence of decreases in the level of leverage following a privatization. Considering industry-specific characteristics the authors found substantial statistical evidence that firms inserted in capital-intensive industries are more leveraged after being privatized.

2.2. Corporate governance, board of directors and corporate control

Parallel session 2 was headed by Corrado Gatti, Sapienza University of Rome, Italy and was titled "Corporate governance, board of directors and corporate control". María Consuelo Pucheta-Martínez and Inmaculada Bel-Oms from the University Jaume I, Spain examined the influence of institutional female directors on CEO compensation (Giovinco, 2014; Torchia, Calabrò, Huse & Brogi, 2010). Their findings show that CEO compensation decreases at low levels of institutional female directors and pressure-resistant female directors on boards, but when their presence on boards increases, CEO compensation also increases. The authors also find that CEO compensation is not affected by pressure-sensitive female directors on boards.

Duccio Martelli representing University of Perugia, Italy and Harvard University, USA presented the study which investigates whether investors are able to reward diversity board stocks compared to traditional assets, when stocks are taken alone; on the other hand, it compares portfolios' returns achieved while investing in firms following a corporate board gender and cultural diversity to portfolios built when investors prefer traditional assets only. The results show that board diversity seems to be a factor allowing stocks to have better risk-return trade-offs compared to traditional assets, and thus helping investors to achieve better results.

Pablo Sanz Bayón from School of Law – Comillas Pontifical University, Spain undertook a jurisprudential and empirical analysis of aspects of the corporate law system in the European context and analysed it in relation to other jurisdictions, such as the Common Law. More specifically, the researcher focused on the issue of corporate disputes in closely-held corporations, which are becoming increasingly important in practice and are more commonly manifesting in global corporate litigation.

2.3. Corporate governance, risks and firm performance

Parallel session 3 "Corporate governance, risks and firm performance" was led by Antonio Renzi, Sapienza University of Rome, Italy. The session was opened with the presentation of Paul M. Guest and

Marco Nerino from Surrey Business School, University of Surrey, UK. Their study showed that announcements of corporate governance ratings by commercial rating firms impact stock market prices and thus have relevance for the efficiency of capital markets. The authors examined 850,000 observations over 2000-2016 and showed that rating downgrades have a significantly negative impact on stock prices for ratings that do not use a tick-the-box approach or are closely aligned to subsequent proxy voting recommendations. Downgrades associated with ratings that meet neither criterion have no impact on announcement returns.

Muhammad Arslan and his co-authors from Lincoln University, New Zealand investigated the nexus between corporate governance (CG) scores and cost of capital (COC). The researcher showed a positive association of director, institutional and government ownership while the negative association of block ownership with CG index and COC. The finding of 2SLS reveals that cost of capital decreases as the level of CG compliance increases, thus, firms with higher CG scores have a lower cost of capital. Finding reveals that audit firm size has positive association with CG compliance and disclosure while negative association with cost of capital among PSX listed firms. Muhammad concluded that board size and gender diversity have a negative association with both CG compliance and COC (Ho, Tower & Barako, 2008; Shehata, 2013).

Seth Armitage representing University of Edinburgh Business School, UK examined the financing choices over time of a sample of companies that have low leverage and high profitability at the start of the sample period. The behaviour of most companies suggests a preference for low leverage or indifference to leverage so long as it is not excessive (debt/assets above 50%). Companies lever up in order to fund a large expenditure, and de-lever subsequently if they have cash inflows. Sustained leverage is associated with recurrent large expenditures. Share issues are an important source of funds and most issuers have good profitability, showing that share issues are important for healthy companies.

2.4. Corporate governance, regulation and law

Session 4 was handled by Dmytro Govorun, Virtus Global Center for Corporate Governance, Ukraine. Participants discussed the issues of corporate governance, regulation and law. Mariya Gubareva representing Lisbon Accounting and Business School, Instituto Politécnico de Lisboa (ISCAL) strengthened her attention on the issues of Expected Credit Loss (ECL) modelling in light of International Financial Reporting Standard 9 (IFRS 9). She admitted that proposed adjustment framework permits to reach a better understanding by banks and financial institutions of complex ongoing interactions between the impairment and economic capital requirements in relation to credit losses. The developed calibration methodology enlightens how to deal with an aspired one day in the future convergence between prudential Basel accord and accounting treatment of credit risk parameters.

Edoardo Martino from Erasmus University, the Netherlands outlined questions of market discipline imposed by creditors on risk-taking behaviours of banking institutions. All above mentioned was highlighted in relation to corporate governance issues. Edoardo highlighted that the incentives of creditors toward market discipline are inherently diluted by the Bank Recovery and Resolution Directive (BRRD) legal design because of competing policy objectives pursued by the Directive. The direct normative consequence of such a finding is that enhancing information and predictability, though desirable in principle, will never lead to optimal monitoring effort, leaving the floor to alternative rule-based strategies.

Shafiq Ur Rehman from University of Malakand, Pakistan has made a presentation on the relationship between Corporate Governance and performance of Islamic and conventional banks of Pakistan (Bukhari, Awan & Ahmed, 2013; Iswaissi & Falahati, 2017; Marsidi, Annuar & Abdul Rahman, 2016). He outlined the developments and recent trends of Islamic and conventional banks for the period 2007-2014. With the help of such variables like Board Size, Outside Directors, Board Gender Diversity and Board Meetings, he measured the influence of corporate governance on bank performance in quite specific types of banking.

Participants continued to talk about corporate governance, regulation and law in the session 4.2 chaired by Francesca Iandolo, Sapienza University of Rome, Italy. Francesco Di Tommaso representing Sapienza University of Rome, Italy in his presentation focused on the agenda for corporate governance reform, mainly from the UK and US perspective (Meier & Meier, 2014; Campa & Donnelly, 2014; Petra, 2006). The researcher's aim was to consider why such legislative initiatives are being pursued and why continuing reform of the corporate governance system in the UK and elsewhere is necessary.

Anthony O. Nwafor from University of Venda, South Africa studied the legal framework for executive remuneration in South Africa. He admitted that the public outcry against disproportionate executive pay has attracted legislative interventions in some jurisdictions, including South Africa, with the aim of increasing transparency and ensuring an enhanced shareholder participation in the fixing of the directors pay. He explained the existing instrument in the South African context and argued that although the shareholders were granted a statutory right to vote on the determination of the executive remuneration, such votes could only become an effective instrument in curtailing excessive pay where there is a proper disclosure which at present was not effectively guaranteed, so long as the provisions on disclosure remain in the directory provisions in the King Code on corporate governance.

Georgios Papachristou and Michalis Bekiaris focused attention on corporate frauds and accounting issues. The authors admitted that fraud costs economy, businesses, investors and society more than $3 trillion every year. It is a serious problem as a series of corporate and accounting scandals have recently received considerable attention. They described fraudster's personal characteristics and discussed fraud evolution from 2004 to 2016, according to the Association of Fraud Examiners' Reports to the Nations. Asset misappropriation was named as the most frequent scheme and the fraudulent financial statement was named as the costliest. They also noted that banking is the industry suffering the most from fraud, while owners or executives and employees with more than ten years at the corporation generate the most high-impact fraud scandals. Such experience was very interesting to study for prevention of fraudulent actions in the sector (Bekiaris, Efthymiou & Koutoupis, 2013; Hutchinson & Zain, 2009; Velte & Stiglbauer, 2012).

2.5. Corporate governance and financial markets

Nicola Cucari, Sapienza University of Rome, Italy chaired session 5. It was targeted to discuss issues of corporate governance and financial markets. Eric Pichet from KEDGE Business School presented his high-trend report regarding the Bitcoin Bubble in terms of governance. Of course, this topic is under discussion as after going from less than $1 at its creation in 2009, the price of the Bitcoin overpassed $1 000 in early 2017 and hit $19 000 at the opening day of the futures contract on the Chicago Mercantile Exchange coming back in January 2018 under $10 000. Eric Pichet outlined the ideology of the Bitcoin and tried to explain the archetypical bubble of the Bitcoin. Of course, presenter shared valuable lessons from the whole story of the Bitcoin era. He pointed out lessons in terms of governance of the financial markets as secure decentralized systems using blockchain-like innovations that will rival traditional trusted third parties (banks, notaries, etc.), if only because they cost less and how regulators and central banks should monitor the risk of cryptocurrencies on financial markets governance and also its influence on collective intelligence on the boards of directors and corporate governance.

Next presentation outlined the determinants of dividend policy on the basis of Euronext 100. Nádia Genebra Ahmad, Joaquim Miranda Sarmento, Victor Barros from Universidade de Lisboa examined the determinants of firm's dividend policy using a sample of firms that belong to the index Euronext 100 between 2007 and 2016. They argued that the level of leverage shapes dividend yields differently in the presence of stable payouts and stable dividends per share. They also stated that the dividend yield reflects a positive valuation of investors if the growth in dividends is linked to the growth in earnings for firms with higher growth expectations, as a policy of a stable payout appears to be viewed by investors as not jeopardizing future growth (Farinha & López-de-Foronda, 2009; Elmagrhi, Ntim, Crossley, Malagila, Fosu & Vu, 2017; Amoako-Adu, Baulkaran & Smith, 2014).

Session was continued by the report on innovative performance in family business and ownership costs of familiness delivered by Beatrice Orlando and Antonio Renzi. The authors consider how does the presence of family members in the board of directors' impact innovative performance in presence of financial slack (Vieira, 2018; Lam & Lee, 2012; Corbetta & Tomaselli, 1996). They distinguish ownership from transaction costs. And argue that the relationship between slack and innovative performance is inverted u-shaped, because any firm has a limited innovative capability and for the presence of ownership costs due to familiness. Researchers argued that family members prefer open versus closed innovation because it amplifies the return on equity of the initiative, despite this choice implies the family has to partially give up control over the process. This mechanism occurs by leveraging on firm potential slack - a firm attitude to attract future funds such as debts thanks to financial slack.

Fruitful discussions continued after the lunch break. Parallel session 2.2 "Corporate governance, board of directors and family ownership" was administered by Giuseppe Sancetta, Sapienza University of Rome, Italy. Salvatore Esposito De Falco together with Nicola Cucari presented a study on interlocking directorates in Italy with regard to the new perspectives for corporate governance mechanism. The authors updated the contribution by Drago et al. (2011) as well as related to the contribution by Heemskerk (2011), Collin (2008) and Kostyuk (2005) about cross-shareholdings and interlocking directorates in Italian listed companies and by using the social network analysis, mapped the network structure of interlocking boards and employed centrality measures like degree, eigenvector and betweenness along with the network density and average degree. The presentation provided a framework for selecting "potentially and actually powerful" firms - around whom interactions and processes can be traced and analysed.

Mariasole Bannò together with the co-authors studied the impact of internationalization strategies on family firms' growth in domestic markets. They contend that the ownership structure of the firm and, specifically, the distinction between family and non-family firms, helps explain the unresolved issue about the impact of internationalization on the domestic market growth. The hypotheses were tested on a sample of 338 Italian multinational companies in the time-window 2008-2012. Empirical results provide evidence in support of the theory: degree of internationalization translates into stronger growth in the domestic market for family business, rather than for non-family firms.

Another team of contributors consisting of Giuseppe Sancetta, Nicola Cucari and Marco Petracca assessed the voting premium in the Italian stock market from April 2007 to April 2017 and showed three major findings: i) reduction of non-voting share in the Italian scenario; ii) prevalence of negative voting rights premium more than positive ones, thus conflicting with the assumption and the observations by other researchers; iii) limits of the voting premium method because some differences in price levels can be explained by the differences between the prices of voting and non-voting shares. The researchers pointed out that interesting evidence already exists, although still much remains to do in the future.

2.6. Corporate governance in banking institutions

Parallel session 6 "Corporate governance in banking institutions" was chaired by Yaroslav Mozghovyi, Virtus Global Center for Corporate Governance, Ukraine. The first presentation in this session was delivered by Valentina Lagasio, who, together with her co-author Marina Brogi, representing Sapienza University of Rome, Italy studied whether the market swayed by press releases on corporate governance. The research was based on the event study on the

Eurostoxx banks. The authors explored systemic and idiosyncratic shocks and found that investment decisions are significantly but negatively influenced by the disclosure of a press release on corporate governance as if this kind of news lead the investors to perceive negatively the bank.

Ida Claudia Panetta from the Sapienza University of Rome delivered a presentation of the research made together with her colleagues, devoted to IT governance disclosure on a sample of the major EU banks. The authors aimed to observe if, how and where banks report on their IT governance issues. They examined whether any differences in supervisor attitude to IT concern will induce differences in IT governance across countries. The analysis indicated that differences in the level of IT governance disclosure are bank-specific and not related to country's institutional settings. Ida also highlighted an increasing consistent attention of both supervisors and banks on IT issues starting from 2013.

Andrei Rădulescu, representing Banca Transilvania and Romanian Academy delivered a presentation on the financial performance of the banking sector in Romania. Andrei analysed the financial performance of the banking sector in Romania during 2007-2017, by employing standard econometric tools, working with quarterly statistics published by the National Bank of Romania (NBR), Eurostat and Bloomberg. According to his results, the credit market in Romania is highly pro-cyclical. At the same time, the improvement of the financial results of the banking industry in Romania over the past quarters has been highly dependent on the decline of the NPL ratio. Based on this estimates he forecasted the financial performance of the banking sector to consolidate in the short-run and to change the trend (from upward to downward trend) in 2018, as the post-crisis cycle hits maturity, while the policy-mix rebalances, with impact for the financing costs.

2.7. Corporate governance, accounting and audit

The parallel session titled "Corporate governance, accounting and audit" was chaired by Beatrice Orlando, Sapienza University of Rome, Italy. Gary Kleinman from the Montclair State University, USA together with the co-authors studied the effect of auditor industry specialization and corporate governance on the cash flow reporting classification choices under IFRS. Gary showed that the more specialized an audit firm was in working in an industry, the less likely were its clients to switch from GAAP's requirement that firms report interest paid and received, dividends received be shown as operating cash flows to being reported elsewhere in the cash flow statement. Audit partner specialization was significantly related to some, not all, of the three types of cash flow reporting discretions studied. According to the study, the corporate governance variable was not related to the broader cash flow reporting choices of switching at all but was consistently negatively related to firm choices that led to higher operating cash flows, such as moving interest paid from the operating activities section to the financing activities section.

The next presentation was addressed by María Consuelo Pucheta-Martínez and Inmaculada Bel-Oms who examined how big auditing firms and audit/non-audit fees impact on corporate social responsibility (Murase, Numata & Takeda, 2013; Kusumastuti, Ghozali & Fuad, 2016; Hay & Knechel, 2017). The authors found that the big four auditing firms and audit and non-audit fees paid by audited firms encourage CSR disclosure practices. The results suggest that big auditing firms play a relevant role in CSR reporting, which may help to mitigate informative asymmetries between managers and stakeholders. Furthermore, audit and non-audit fees paid by audited companies promote the voluntary non-financial information disclosure.

Perspectives on corporate governance and internal controls based on the Greek experience were outlined by Andreas G. Koutoupis in his presentation. Andreas portrayed and evaluated the existing corporate governance structure and secondly, highlighted its connection with internal audit function and management practices. The researcher concluded that corporate governance is driven by managerial excellence and effective governance because of internal audit processes, risk assessment, control activities, information and communication, and also monitoring activities.

Marco Pompili closed the session by presenting research on Fair Value Accounting and Earnings Management. He tried to answer the question whether unobservable inputs have any impact on earning quality aiming to identify the relationship existing between FVA and earning quality on a sample of banks listed in the US and in Europe observed for the period 2011-2016. The results confirmed a negative relationship between FVA and earning quality for banks listed in the US whereas results for banks listed in European markets do not provide strong evidence. See similar research by Paoloni, Paolucci & Menicucci (2017); Li, Abeysekera & Ma (2011); Alhadab (2016).

3. CONCLUSION

We tried to reach two results with this paper: firstly, to outline the most recent trends in corporate governance research based on the manuscripts and presentations of the international conference "Corporate Governance, Ownership and Control"; and secondly to find connections between these trends and research with the papers earlier published in the relevant academic journals which received attention of the research community (judged by the quantity of references and downloads).

In our findings, we support statements of Prof. Zattoni indicating that more often than not it is hard to measure corporate governance with simple metrics. Thus, there is a need to look for alternatives that will provide both more precise and efficient research approaches and metrics to get deep insights from the research on corporate governance. Interdisciplinary approach provides a lot of reasons to believe that it can be used to change the profile of research on corporate governance. And these statements were supported by some of the research results presented at the conference. For example:

- emotional factors determine the top management successor selection in family firms;
- CEO compensation decreases at low levels of institutional female directors and pressure-resistant

female directors on boards, but when their presence on boards increases, CEO compensation also increases;

- board diversity is a factor allowing stocks to have better risk-return trade-offs compared to traditional assets, and thus helping investors to achieve better results;
- announcements of corporate governance ratings by commercial rating firms impact stock market prices and thus have relevance for the efficiency of capital markets;
- the level of leverage shapes dividend yields differently in the presence of stable payouts and stable dividends per share;
- executives of the family firms prefer open versus closed innovation because it amplifies the return on equity of the initiative, despite this choice implies the family has to partially give up control over the process;
- degree of internationalization translates into stronger growth in the domestic market for family business, rather than for non-family firms;
- investment decisions are significantly but negatively influenced by the disclosure of a press release on corporate governance as if this kind of news lead the investors to perceive negatively the bank;
- big auditing firms play a relevant role in CSR reporting, which may help to mitigate informative asymmetries between managers and stakeholders.

According to the comments of the participants who attended the conference, it was well organized and provided a nice venue to exchange research ideas and establish new contacts.

Organizational committee of the conference would like to express their gratitude to all participants and supporters who joined our international network and despite freezing weather visited Rome to make their deposit by high-quality presentations and interesting discussions.

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