

EDITORIAL

Dear readers!

With reference to international academic studies, this issue looks at the discussion of important topics through empirical lens. For several years, these research issues have been the focus of lively debates but they still provide some future research lines.

In this direction, the discussion encouraged by *Marco Tutino and Matteo Merlo* is very challenging. With their overview of the literature on accounting fraud, they analyse the main features of past accounting fraud to discover and discuss how to prevent theme in the future. They analyse the role of corporate governance, ethical behaviour, accounting manipulation, detection techniques and forensic accounting in their studies. The problem of accounting fraud has whetted the debates for academics, practitioners and policy makers and the authors propose forensic accounting to investigate and prevent accounting fraud.

Their discussion provides food for thought in research studies that should pay greater attention to the intrinsic and joint endogeneity of corporate governance variables. According to Kurma and Zattoni (2019), research on board effectiveness has to explore not only competent and independent directors but also real resources and diligence, if they want to favour and manage rich information flows, search for missing information, participate actively in meetings and raise critical questions, etc. (De Zoort et al., 2002). Only qualified directors with authority and resources can protect stakeholder interests and ensure reliable financial reporting, internal controls, and risk management. With diligent oversight efforts, it is possible to support strategic decision making (Ravasi & Zattoni, 2006) and avoid fraud.

The authors also analyse if creative accounting could be a way to manipulate accounting practices to hide the actual performance of companies in order to achieve results that benefit the company or some of its employees. In this direction, *Hamed Amira and Bin Qoud Nuha* also discuss the relationship between creative accounting and conditional conservatism. By supporting conservatism with a set of controls -including upgraded training, the intensified effort of auditors, increased professional skills and activated audit committees- the financial statements become more reliable and they can make the right decisions. Creative accounting is merely based on the flexibility of the regulatory system, on the timing of operations, and on the reclassification and presentation of accounting data. Creative accounting is a tool and, if used correctly, it can produce positive effects for users. However, if it is mishandled or gets into the wrong hands, it can damage the company. They propose some future qualitative studies to capture conservatism and its effect on creative accounting and the auditing process and its quality.

The paper by *George Drogalas, Grigorios Lazos, Andreas Koutoupis, Michail Pazarskis* shifts the debate to another issue in accounting. In their study, they examine the adoption of IAS in the financial statements and business performances of Greek construction companies listed the Athens Stock Exchange, with an analysis of the relative influence on several accounting measures and financial ratios. They compare the measures used for the pre- and post IFRS. The results reveal that transitioning to IFRS can lead to a deterioration of the profitability ratios and could, therefore, affect the overall performance of the examined companies. They provide some food for thought for practitioners and policy makers on the effects of adopting of IAS in the financial statements of other European countries within the same industrial sector or examined within other time frame periods.

A very thought-provoking and thorough debate is provided by *Christos Kallandranis* for managers dealing with their investment opportunities. His empirical results on the balance sheets of all non-financial firms listed in the Athens Stock Exchange for the period 1993-2001 show that the presence of cash flow availability influences a firm's optimal investment, financing, and risk management policies. Hence, both liquidity management and investment decisions are complementary management tools.

This finding suggests that the significance of cash flow variable conditioning on Tobin's q investment equation can be attributed to the failure of Tobin's q to capture all relevant information for the expected future profitability of current investment projects. The high sensitivity of investment decisions of firms on liquidity is a recurring theme in the empirical literature, which is quite robust across different periods and countries. Hence, the fact that cash flows have a positive impact on investment, even after taking into account q, is often interpreted as evidence of the financing constraints that firms face.

Ahmed S. Alanazi investigates the relation between the Corporate Governance Index score and the operating performance of the 90 largest listed Saudi corporations. Moreover, the paper compares the 20 best firms and the 20 worst firms, the best performers with the highest scores on the Corporate Governance Index and the worst performers with the lowest scores. The results indicate that there is neither a statistical and economic difference in the operating performance as measured by the ROA, the ROS and the change in performance. The results show the same no operating performance difference between well-governed firms and poorly governed ones. The corporate governance scores do not explain any of the performance variations.

In the same line of research is *Yosuke Kakinuma* who aims to study the influence of the quality of Thai firms' corporate governance on operating performance. The time variation of corporate governance premium is estimated by macroeconomic determinants using a two-state Markov switching model. This research provides two novel findings. First, based on the time varying characteristic of expected returns from the quality of corporate governance, an optimal investment strategy with switching between portfolios of different governance levels and risk free short-term government bonds is developed. Secondly, incorporating risk factors of value and momentum with the governance ratings when forming portfolios improves expected returns. Among limitations of the research the author points out that the regression and switching model is

tested on the Thai market, which is considered small and still immature from a perspective of the international financial market. Thus, there is room for future study to test the same model on more fundamentally advanced markets.

The overall conclusion is that corporate governance in emerging markets lags far behind governance practices of developed economies and it will take some time before corporate governance becomes a cultural priority for them.

Future research should look at longer time frames and larger samples. Focusing on the corporate governance standards (the attributes) as explanatory variables, instead of the index or its components as a whole, is a must. More indexes and ideas for constructing indexes to measure governance quality are needed (Mariani et al., 2012; Bernini et al., 2013).

In this evergreen issue, new research roads can study how country-level institutions (such as the National Business Systems), and how formal (La Porta et al., 1998) and informal (e.g., culture) institutions (Hofstede, 1985) can influence governance problems (Aguilera, et al., 2015).

Future research lines need to move towards qualitative methods for data collection and explore how analysis can be used to study processes and dynamics (with interviews, case studies, text analysis, participant observation, and video or type recording, as discussed by Bezemer, Nicholson, & Pugliese, 2018; McNulty & Pettigrew, 1999; Ravasi & Zattoni, 2006; Schwartz-Ziv, 2013; Tuggle, Sirmon, Reutzel, & Bierman, 2010). In their research, scholars should describe the soft factors of board effectiveness, such as the demographics of the board, the role of power differentials on the decision-making process, the culture of dissenting and how non-executive members can manage conflicts constructively (Zaman, 2011; Yin et al., 2012; Wang et al., 2013; Marchetti et al., 2017).

*Prof. Giovanna Mariani
Co-Editor-in-Chief, University of Pisa, Italy*

REFERENCES

1. Aguilera, R., Talaulicar, T., Chung, C. N., Jimenez, G., & Goel, S. (2015). Cross-national perspectives on ownership and governance in family firms. *Corporate Governance: An International Review*, 23(3), 161-166. <https://doi.org/10.1111/corg.12112>
2. Bernini, F., Mariani, G., & Panaro, D. (2013). The corporate governance drivers, performance and risk: empirical evidence from Italian context. [Conference issue]. *Corporate Ownership & Control*, 11(1-2), 126-139. <http://dx.doi.org/10.22495/cocv11i1conf2p4>
3. Bertoni, F., Meoli, M., & Vismara, S. (2014). Board independence, ownership structure and the valuation of IPOs in Continental Europe. *Corporate Governance: An International Review*, 22(2), 116-131. <https://doi.org/10.1111/corg.12051>
4. Bezemer, P. J., Nicholson, G., & Pugliese, A. (2018). The influence of board chairs on director engagement: A case-based exploration of boardroom decision-making. *Corporate Governance: An International Review*, 26(3), 219-234. <https://doi.org/10.1111/corg.12234>
5. DeZoor, F. T., Hermanson, D. R., Archambeault, D. S., & Reed, S. A. (2002). Audit committee effectiveness: A synthesis of the empirical audit committee literature. *Journal of Accounting Literature*, 21, 38-75.
6. Hofstede, G. (1985). The interaction between national and organizational value systems. *Journal of Management Studies*, 22(4), 347-357. <https://doi.org/10.1111/j.1467-6486.1985.tb00001.x>
7. Kostyuk, A. (2003). Board practices: An international review. *Corporate Ownership & Control*, 1(1), 102-111. <http://doi.org/10.22495/cocv1i1p7>
8. Kostyuk, A., & Barros, V. (2018). Corporate governance and company performance: Exploring the challenging issues. *Corporate Governance and Organizational Behavior Review*, 2(2), 25-31. http://doi.org/10.22495/cgobr_v2_i2_p3
9. Kurma, P., & Zattoni, A. (2019). Farewell editorial: Exiting editors' perspective on current and future challenges in corporate governance research. *Corporate Governance: An International Review*, 27(1), 2-10 <https://doi.org/10.1111/corg.12268>
10. La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. (1998). Law and finance. *Journal of Political Economy*, 106(6), 1113-1155. <https://doi.org/10.1086/250042>
11. Marchetti P., Siciliano G., & Ventrone M., (2017). Dissenting directors. *European Business Organization Law Review*, 18(4), 659-700. <https://doi.org/10.1111/corg.12051>
12. Mariani, G., & Panaro, D. (2012). Corporate governance and performance in turnaround: A synthetic index. *Corporate Ownership & Control*, 10(1), 62-74. <http://doi.org/10.22495/cocv10i1art6>
13. McNulty, T., & Pettigrew, A. (1999). Strategists on the board. *Organization Studies*, 20(1), 47-74. <https://doi.org/10.1177/0170840699201003>
14. Ravasi, D., & Zattoni, A. (2006). Exploring the political side of board involvement in strategy: A study of mixed-ownership institutions. *Journal of Management Studies*, 43(8), 1673-1704. <https://doi.org/10.1111/j.1467-6486.2006.00659.x>
15. Schwartz-Ziv, M. (2013). What do boards really do? Evidence from minutes of board meetings. *Journal of Financial Economics*, 108(2), 349-366. <https://doi.org/10.1016/j.jfineco.2012.04.011>
16. Tuggle, C. S., Sirmon, D. G., Reutzel, C. R., & Bierman, L. (2010). Commanding board of director attention: Investigating how organizational performance and CEO duality affect board members' attention to monitoring. *Strategic Management Journal*, 31(9), 946-968. <https://doi.org/10.1002/smj.847>
17. Wang, D. H. M., & Huynh, Q. L. (2013). Complicated relationships among audit committee independence, nonfinancial and financial performance. *Journal of knowledge management, economics and information technology*, 3(5), 1-2.
18. Yin, F., Gao, S., Li, W., & Lv, H. (2012). Determinants of audit committee meeting frequency: evidence from Chinese listed companies. *Managerial Auditing Journal*, 27(4), 425-444. <https://doi.org/10.1108/02686901211218003>
19. Zaman, M., Hudaib, M., & Haniffa, R. (2011). Corporate governance quality, audit fees and non-audit services fees. *Journal of Business Finance & Accounting*, 38(1-2), 165-197. <https://doi.org/10.1111/j.1468-5957.2010.02224.x>