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**CORPORATE GOVERNANCE:
AN INTERDISCIPLINARY OUTLOOK
IN THE WAKE OF PANDEMIC**

Conference proceedings

2020



Proceedings
of the
International Online Conference
**“Corporate Governance:
An Interdisciplinary Outlook in
the Wake of Pandemic”**

November 19-20, 2020

名誉

Meiyo

Honor

良心

Ryoushin

Conscience

高貴

Kouki

Nobility

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CORPORATE GOVERNANCE IN THE EPOCH OF PANDEMIC

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The global pandemic has dramatically shown the concrete application of a stakeholder value model. Employees necessarily first. The health and safety of employees as priorities to be put before even shareholder interests. So, a really route change in corporate governance, a *change of priorities* fixed by practice and previous scholarly literature (Kostyuk, Mozghovyi, & Govorun, 2018; Ho, Tower, & Barako, 2008; Boubaker, 2007; Huse, 2005; Melis, 2003).

In times of global pandemic, boards have been called upon to address employee concerns over sick leave, quarantine and caring responsibilities. The focus is looking after own staff, that means provide protective gear for workers who are exposed to contact with people in their jobs, introduce sick leave provisions and flexible shift work for those not able to work remotely, ensure flexibility and adjustment in expectations for home working staff, emergency funds or salary guarantee for a period of time for staff who are temporarily not required due to business closure or lockdown and last but not least provide mental health support.

The shareholder value gives way to a stakeholder value model appreciated by numerous previous scholarly literature (Ayuso & Argandoña, 2009; Pérez Carrillo, 2009).

In this context, it is appropriate to approve *dividends payments* at a time when employees were being laid off? In the same way, will shareholders look favorably on *executives* receiving generous bonuses following a year where they received no dividends? On these and other crucial issues, the boards are called up to decide, taking into account the *reputational and signaling effects* of maintaining versus suspending or reducing the dividend to shareholders and of cutting or not executive pay. The board decision-making has been complicated by the radical uncertainty about the future that characterized the new environment (Torchia, Calabrò, Huse, & Brogi, 2010; Chouaibi, Boujelbene, & Affes, 2009; Collin, 2008; Guerra, Fischmann, & Machado Filho, 2008). The adequate and healthy articulation of remuneration, together with the presence of independent directors, auditing firms, rating agencies, and the contestability of ownership structures determines the quality of governance system (Almutairi & Quttainah, 2019; Kostyuk & Barros, 2018; Mieli, 2010; Dell'Atti, Intonti, & Iannuzzi, 2013; D'Apolito, Iannuzzi, Sylos Labini, & Sica, 2019). All over the world, many companies announced cuts, or even zeroing, of compensation, even if the modalities are very diversified and the way to report them often deceptive, and well illustrate the opacity that still permeates this world (Awad, Ferreira, Jociene, & Riedweg, 2020). Therefore, make decisions based on *flexibility and ethics* becomes an imperative. Good choices are rewarded, bad choices are hardly condemned by social media. Mismanagement pays for the consumer hostility later.

These are the new priorities. Before the COVID-19 pandemic crisis climate change, biodiversity loss, natural disasters were at the top of the global agenda. The attention of international debate has been oriented on how to manage these 'new risks'. But in the current context, *what happens to sustainability?* Probably, boards have less time to spend on sustainability issues despite previous research supported this idea (Ramiah, 2020; Al Fadli, 2020; Grove & Clouse, 2017). This could be a threat for companies that have worked hard to direct their business towards corporate responsibility, social engagement, corporate citizenship.

The pandemic has accelerated the process of convergence towards *digitalization* more than ever. Within this scenario, boards must envision the types of risks that arise from technology, both the opportunities and perils. So, another crucial issue is the quality of boards: are current boards of directors capable of handling uncertainty? Do the board directors need new skills and professionalism?

All recalled issues are amplified in banking and financial institutions. The banking system represents the main channel to support the economic system and guarantee liquidity to companies in the persistence of the emergency. Rethinking *banking governance* can represent a key strategic element to govern the effects of the crisis and lay the foundations for future growth.

A great contribution could come from the debate between academics and practitioners to resolve all the issues above. The proposal of new ideas, the progress in the understanding and the dissemination of knowledge could prove invaluable in overcoming the current global crisis. Therefore, the conference “*Corporate Governance: An Interdisciplinary Outlook in the Wake of Pandemic*” recently held online, has been attended by more than 40 participants from 14 countries of the world, has contributed to the debate on the mechanisms of advancement of recent corporate governance practices. There were 28 presentations delivered by the participants during the conference. Board of directors as a field of research has been the most discussed issue by the conference participants. The role and functions of the CEO, the board gender diversity, the board of directors’ performance, accountability, sustainability and other corporate governance issues have been intensively discussed by the scholars. The role and composition of the board committees such as nomination and corporate social responsibility committees have been reconsidered by participants too.

Also, the conference participants introduced a number of new corporate governance terms and concepts. For example, how to measure the gender board diversity? The participants proposed an index approach to answer the question above. It was interesting to fix a new corporate governance term introduced by presenters at the conference – “sustainability incentives in executive remuneration contracts”, as well as a new term called “isomorphism in corporate acquisitions”. A phenomenon of “CEO narcissism” comes to be a serious contributor to analyze the CEO decisions from the point of view of organizational behavior and psychology.

During two days of the conference, scholars who participated in the conference forum provided more than 300 comments with a deep analysis of the materials presented at the conference. It was a very transparent process of discussing the research concepts and its results like a process of open review of scholarly research.

With regard to the above, the pandemic becomes a starter to ignite the engine of corporate governance research with a new fuel – corporate governance data, and recently held conference forum has been used by the scholars from all over the world to make their own contribution to the corporate governance progress.

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SESSION 1: BOARD OF DIRECTORS: ROLE, DUTIES AND PRACTICES**THE IMPLICATIONS OF COVID-19 ON BANKS' COMPENSATION POLICY: AN ANALYSIS OF EUROPEAN SIGNIFICANT BANKS****Stefania Sylos Labini ***, **Francesca Donofrio ****

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Abstract

The COVID-19 pandemic is putting a strain on the financial markets and the entire banking sector. Following the financial crisis 2008-2012, the banks strengthened their financial and equity situation. The banks made significant progress in terms of quantity and quality of assets with respect to risk-weighted assets, despite the huge losses suffered following the double recession; they considerably reduced non-performing loans with drastic budget cleanings (Al-Jarrah, Al-Abdulqader, & Hammoudeh, 2019; Clouse, 2013; Visco, 2018; VoxEU, 2009).

In an economic system that is still convalescing and in the presence of structural problems, the COVID-19 crisis broke down. Unlike that of 2008-2012, current crisis has no financial origin. The current recession was triggered by the pandemic, with repercussions on both the demand-side and supply-side, and therefore of consumption, employment, and the economic system in general (McKinsey & Company, 2020).

Banks too were inevitably exposed to the critical situation of the real economy. The collapse of banks' stock prices registered by March 2020 is proof of that. Banks' stock decline is explained by future negative results due to the economic trends and by the inevitable worsening of the companies' creditworthiness. The gravity of the situation has been

faced by extraordinary interventions by central banks and governments to defuse a very dangerous short circuit, or at least reduce its severity and scope.

Nevertheless, in this phase, banks play a crucial role in maintaining and protecting the financial system. Banks are called upon to ensure the necessary liquidity to the real economy by transferring, in addition, those intangible aspects of trust essential to be able to embark on a recovery path (Wu & Olson, 2020; Acharya & Steffen, 2020).

Central banks intervened with monetary policy measures to provide exceptional liquidity to banks with two goals: first of all, to avoid systemic liquidity crises that could overwhelm them and secondly, to convey financial flows to the real economy. The European Central Bank (ECB), in its dual role of the central bank and supervisory authority for the eurozone countries, adopted unprecedented measures, on the one hand, aimed to provide funds to banks, on the other hand, finalized to ease the capital constraints. The final scope consists of making capital requirements all the more onerous the more the companies' situation deteriorates and the credit risk increases (ECB, 2020).

Also, governments intervened with multiple initiatives, differentiated in relation to the state of public finance: moratoriums, non-repayable disbursements, issue of public guarantees to make loans to enterprises. All initiatives are necessary to avoid economic collapse (Claeys, 2020). The European Banking Authority (EBA) provided further clarification regarding the measures to be taken to properly manage the impact of COVID-19 by the EU banking sector. In particular, the clarifications are divided into three documents. The first contains an invitation to banks to refrain from distributing dividends or repurchasing shares for the purpose of shareholders' remuneration, as well as to adjust remuneration policies with respect to the risks arising from the current economic situation (EBA, 2020b). The second document contains an invitation to the national supervisory authorities to adopt flexible policies for the communication of information relating to supervisory reports and third pillar disclosure required by Basel III (EBA, 2020c). Finally, the third document invites the national supervisory authorities to support the efforts of financial institutions in the fight against money laundering and financing of terrorism (EBA, 2020a).

In times of COVID, almost all companies are reviewing the compensation of their top management, to make them financially and ethically compatible with the general situation. It will not be a one-off intervention but a new step in a process already underway: the way to pay management will have to be deeply rethought in the coming years (Awad, Ferreira, Jociene, & Riedweg, 2020).

For many years the issue of top management remuneration has been at the centre of scientific and academic debate (Dell'Atti, Intonti, & Patrizia Iannuzzi, 2013; Hong, Li, & Minor, 2016; Rau, 2015).

The exponential growth of the compensation itself, the millionaire bonuses, the stock option plans that rewarded managers of companies in crisis, the gender pay gap, have been possible in the past in a context of scarce transparency. Today the higher transparency imposed on banks' remuneration inhibits the adoption of such practices. The corporate reputation itself can be jeopardized by reckless remuneration policies (Buckley & Nixon, 2009; Fernando, Gatchev, May, & Megginson, 2012). Aware of the role of the management incentive plans in originating the financial crisis of 2008, the legislator and the various authorities introduced stricter and detailed rules to avoid abuses, limit conflicts of interest and increase transparency in the banking sector.

In addition, the current state of emergency COVID-19 requires a change in past remuneration policies. All over the world, many companies announced cuts, or even zeroing, of compensation, even if the modalities are very diversified and the way to report them often deceptive, and well illustrate the opacity that still permeates this world (Awad et al., 2020).

There are more and more top managers who, in the middle of the coronavirus emergency, have decided to give up bonuses and remunerations to devote the sum to social initiatives or as a gesture of solidarity towards employees, after the stop in activities.

Based on these considerations, the present study aims to investigate the impact of the COVID-19 pandemic on the remuneration policies of European significant banks. More precisely, this study intends to investigate the banks that announced a change in remuneration policies during the current socio-health emergency (since March 2020). Our study aims to understand the real reasons underlying any changes in remuneration policies. Did the banks change their remuneration policies in a consistent and effective way or did they just want to give the market a positive image of themselves? In other words, we want to understand whether the remuneration policies adopted by the examined banks are really aimed at preserving business continuity or they represent a sort of "greenwashing". The present analysis may be deepened in the future when the remunerations paid in 2020 will be published.

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CONFERENCE FORUM DISCUSSION

Mehtap Eklund: It is a very interesting and timely study. May I ask you what you mean by the changes to remuneration policies? Do you mean the changes in the structure or in the level or the delay or cuts in payments? Have you noted any demand or move to the ESG based compensation schemes?

Mythili Kolluru: This is an exhaustive study. Your sample size is large. Can you tell us what the explicit changes the banks did in their remuneration policies in this pandemic?

Dmitriy Govorun: Thanks for your efforts in researching such an interesting and actual topic. It seems that the COVID-19 pandemic has substantially changed the business environment. I like the idea to investigate remuneration policies and the influence of a lockdown as a risk factor. As we may see from your research some hypothesis concerning changes in remuneration policies was not confirmed. However, have you searched for the same or similar studies (within the same sample period) concerning non-financial/non-banking companies? I mean banks seemed to be quite sensitive to news and other informational environments. Perhaps, they are not so active in their communication policies and willing just to develop the plan internally. So, we should expect to see it at the beginning of the new financial year and this may be a reason why you have not found many keywords in press releases during the study.

Hadfi Bilel: I have something to know. What is the role of the World Bank in the face of this crisis? How can financial organizations behave to save their country's economic situation?

Francesca Donofrio: Dear Mehtap Eklund, thank you for your interest. In our study, by changes in the remuneration policies, we mean all the interventions put in place by the banks concerning cuts in the salaries of top management for both financial and ethical reasons. The purpose is to examine the actions taken by the banks examined that have had financial impacts for the companies, such as the review of the incentive plans and remuneration policies. In this first phase of the research, we didn't find anything relevant about ESG based compensation scheme.

Francesca Donofrio: Dear Mythili Kolluru, thank you for your question. Contrary to our expectations, a high percentage of banks surveyed (86.66%) did not announce changes to their executive and top management remuneration policies during the period under review. Only 8 of the 60 banks assessed announced various actions taken by executives, including wage cuts, cuts, or waivers of a bonus or agreement to postpone the expected wage increase. A second interesting result concerns the widespread practice of forgoing remuneration for charitable purposes. In some banks (13% of the sample), senior management and non-executive directors have decided to give up part of their fixed or variable remuneration to support the business or to donate to pandemic funds.

Francesca Donofrio: Dear Dmitriy Govorun, at the moment the only source of data is the company's press releases and the interim financial report (which unfortunately does not provide much information on the remuneration policies). We have analyzed all the press releases and extrapolated only those dealing with the issues of COVID and the actions taken by the company. Probably, as you say, the banks examined have not been so active in their communication policies and are only willing to develop the plan internally. But these results will be evident only following the publication of the annual report or the report on remuneration policies. In fact, only the actual data on the remuneration paid to top management will make it possible to make a comparison between the period before and after the pandemic in order to also assess the effectiveness of the measures implemented. To be clear, if the differences between the remuneration paid to managers before and after the pandemic are consistent, it means that the intervention of the banks is effective and really aimed at preserving business continuity. Otherwise, if the differences between the remuneration paid to managers before and after the pandemic are irrelevant, this could mean that the intervention of the banks is only apparent, aimed only at obtaining the approval of the investors. Let's think of a sort of "greenwashing" applied to the area of corporate governance, in which banks want to show they are more diligent than they really are. Certainly, future research developments will have as their object is an in-depth analysis of the measures adopted by banks, not limiting the analysis to press releases.

Francesca Donofrio: Hi Hadfi, thank you for your message. The main role of banks in facing the current crisis consists of ensuring the availability of liquidity in the context of mounting working capital. To this end, these financial institutions may be incentivized through risk-sharing and guarantees. A second crucial objective consists of protecting payment systems. Even with a well-functioning market infrastructure is essential. I suggest you read the World Bank's publication available at the following link: <https://openknowledge.worldbank.org/bitstream/handle/10986/33555/9781464815706.pdf?sequence=10&isAllowed=y>

Hadfi Bilel: Dear Francesca, thank you for your attention. I see that is interesting and it is important to concentrate on the financial side either for the banks or for the companies because of the crisis of COVID-19 characterized mainly by the lack of liquidity.

Bashar H. Malkawi: The study is interesting since many banks did not decide to cut compensation and dividends for top management.

Mireille Chidiac El Hajj: The study is interesting as it sheds light on two main axes: managers' remuneration on the one side; and banks supporting the national economy during the pandemic on the other. The reasoning is clear but it should be put in the framework of governance but also of CSR. The literature review should be based on both concepts. Moreover, the researchers made a clear confusion when in p4 they named 2 hypotheses, then in p6 they called them questions. In this sense, it would be useful to change the hypotheses into questions;

since the researchers conducted a qualitative methodology. Two other issues were found. Firstly, the banks' names should be added in appendices. Secondly, the researchers based their analysis on the press release; without 1) mentioning the names of the journals; and 2) while it is well known that, for governance purposes, banks also upload reports on the web. Referring to Coding can be a suitable solution to strengthen the methodology.

Mehtap Eklund: Francesca, thanks for the valuable response. May I ask you a question from the perspective of methodology? You stated that you conducted the content analysis. May I ask you how did you conduct it? Manually or through a macro or any software? It would be very time-consuming to do manually with your large dataset. If you did it manually, how can you be sure about the validity and accuracy of the result? There may be honest human errors? How did you cope with it?

Francesca Donofrio: Dear Mehtap Eklund, the content analysis was done manually. To ensure the validity of the content analysis, the press releases were independently reviewed by both researchers. At the end of the analysis, all the ambiguities and divergences were discussed.

Francesca Donofrio: Dear Mireille Chidiac El Hajj, thank you very much for your useful suggestions. With regard to CSR, it could represent a useful added value for our paper. So, we will certainly consider it. About the sample, this is just an extended abstract, but in the full paper, we inserted a list of banks in the appendix. Regarding the sources, the 2020 governance report will only be available next year, so in this first phase of research, it was not possible to use it.

Ilaria Galavotti: Dear Stefania and Francesca, thank you for presenting your research on such an actual topic. My question concerns your sample: in your paper, you state that the sample investigated is composed of all European significant banks as of September 1, 2020. Significant banks are directly supervised by the European Central Bank. These banks represent the most relevant in terms of size, economic importance, cross-border activities, and direct public financial assistance. Could you please briefly explain more these criteria? For example, how did you measure economic importance and cross-border activities?

Maria Cristina Arcuri: Dear Stefania and Francesca, I agree with Ilaria and I have the same questions concerning the measurement of economic importance and cross-border activity.

Francesca Donofrio: Dear Ilaria and Maria Cristina, thank you for your comments. It is not a matter of the authors' discretion, but rather of criteria established by the ECB. I recommend that you look at the following link for all the details: <https://www.bankingsupervision.europa.eu/banking/list/criteria/html/index.en.html>

Ilaria Galavotti: Thank you, my question was exactly related to the contents of the table in the link. Maybe, though you already referred to the ECB in the paper, it would be useful to explicitly report the explanation of each criterion, just to make it more "immediate" to the readers which thresholds have been adopted to select the sample.

THE IMPACT OF BOARD CHARACTERISTICS ON FINANCIAL PERFORMANCE: INTERNATIONAL EVIDENCE FROM INSURANCE INDUSTRY

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Abstract

Although the interest in corporate governance practices has been widespread among economists since the early 1900s (Jensen & Meckling, 1976), the topic has become more and more relevant in the light of fraud scandals in the United States and the recent financial crisis. These events have revealed uncertainties regarding the role of supervisors, business models and risk exposure assessment, but above all regarding the characteristics and operating profiles of the companies' board. To date, the delicate economic situation still underlines the need to improve management practices in order to consolidate a resilient corporate structure (Tricker, 2019).

Academic studies outline the role of sound corporate governance practices in reducing agency problems while maximising shareholders' wealth (Carter, Simkins, & Simpson, 2003). Corporate governance regulates the relationships between the senior management, the board of directors, the shareholders and other stakeholders and aims to settle the firm's structure and tools to achieve and monitor business goals (OECD, 2015). Solid governance practices facilitate decision-making and can improve business strategy and performance in the long term (Bhagat & Bolton, 2008).

The topic is particularly significant in the case of insurance companies and, more generally, in the financial intermediaries sector, as confirmed by the post-financial crisis reforms that have affected the financial sector, focusing on the solvency of intermediaries and on the central position of their internal governance models.

In the insurance industry, default conditions are mostly linked to the financial distress arising from management inability to address risk exposure. The instability of the insurance sector may have a negative impact on a wide range of stakeholders and on the financial system itself. That is why regulators have developed a new risk-based solvency framework, as was the case with Solvency II in the European Union (Directive 2009/138/EC).

Although there is no universal governance model, it is possible to set sound principles to make management activities and processes transparent and effective in the interest of stakeholders (OECD, 2015).

In this context, the company board and its composition play a key role (Adams & Ferreira 2009; Adams & Mehran 2012; Ben Barka & Legendre, 2017; Baysinger & Butler, 1985; Bennouri, Chtioui, Nagati, & Nekhili, 2018; Birindelli, Dell'Atti, Iannuzzi, & Savioli, 2018; Datta, 2018; Ghafran & O'Sullivan, 2013; Jensen, 1993; Knyazeva, Knyazeva, & Masulis, 2013; Liu, Miletkov, Wei, & Yang, 2015; Markonah, Sudiro, Surachman, & Rahayu, 2019). The insurance companies' board evaluates the insurer's maximum acceptable risk, while monitoring minimum capital requirements according to the actual risk assumed, approves risk management policies, is responsible for audit activities and defines adequate requirements for board members and top management. In addition, the board must clearly define the governance system, while monitoring internal organisational structure to ensure efficiency, effectiveness and transparency (OECD, 2017).

This research aims to investigate the relationship between a wide range of board characteristics and corporate performance in the insurance sector. The survey has been conducted on an international sample of 119 listed insurance companies operating in the period 2009-2019. The sample includes companies from 12 countries, belonging to 3 geographical areas: North America, Europe and Asia.

For this purpose, we performed a dynamic pooled regression model to test the impact of a wide range of board-specific factors. The survey has been conducted on an international sample of 119 listed insurance companies operating in the period 2009-2019.

The empirical analysis is based on a dynamic pooled regression model designed to test the effects on insurance companies' performance of a wide range of board-specific factors. Namely, to investigate the relationship between financial performance and board characteristics we developed a model composed of 26 explanatory variables regarding board features, combined into four major survey area: 1) board committee (i.e., presence and features of board committee), 2) board

structure (i.e., board structure policies, board diversity, background and skills of board members, board member affiliations and individual re-elective mechanism), 3) board independence (i.e., board independence policies, share of independent and non-executive board members and CEO-Chairman separation) and 4) board operativity (i.e., number of board meetings, board meetings attendance and disclosure).

For each of the four major survey areas, we elaborated an “*ad hoc*” indicator score. Given the presence of both qualitative and quantitative data, the metric of each item preliminarily required conversion of qualitative information into quantitative data. Individual scores have then been combined into an overall category score for each of the four survey areas.

The four combined scores are assumed as possible predictors of insurers’ performance. As a dependent variable, we used the Market-to-Book ratio, which relates to the firm’s market price with the book value of its equity. On the side of the explanatory indicators, we also added two firm-level control variables, an economic performance indicator (ROE) and a leverage indicator (market-to-book ratio). We allowed for lagged board scores predictors since we expected shifting in internal governance take longer to reveal their effects on corporate performance.

All the data required by the regression model have been collected from the Thomson Reuters database. We excluded a number of insurers due to the lack of data. We also imposed a minimum of at least four years available data in order to include companies in the study. Our final sample consists of 1,070 company-year observations.

Our findings provide evidence that board structure and board independence are the most relevant governance factors, with a potentially positive impact on insurers’ market performance. These findings indirectly outline the opportunity for insurance companies to improve corporate fair value by strengthening internal governance models through effective board policies, an adequate qualification of board members and a well-balanced membership of the board that means a solid financial expertise of board members and a satisfactory level of gender and cultural diversity within the board. At the same time, there is still room for improvement as regards the level of board independence by strengthening internal governance policies in order to maintain an adequate number of independent and non-executive board members.

The study upgrades the evidence arising from the existing literature by providing a new element to support a deeper understanding of the effects of insurance companies’ board characteristics on financial performance. We also believe empirical results may have important implications for both managers and policymakers within the insurance industry. Greater awareness of key board characteristics in the value creation process may stimulate a number of players to intensify their efforts to enhance internal governance policies and practices.

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CONFERENCE FORUM DISCUSSION

Alex Kostyuk: Dear Pasquale and Grazia, your research is very contributive to the recent literature on the board of directors and firm performance. I do not remember the previously published papers elsewhere with a focus on insurance companies' performance and a large variety of the board of directors' variables with such a strong international scope. You outlined the research framework as “The survey has been conducted on an international sample of 119 listed insurance companies operating in the period 2009-2019. The sample includes companies from 12 countries, belonging to 3 geographical areas: North America, Europe, and Asia”. I suppose that among these 12 countries there are countries exploiting either the Anglo-Saxon model of corporate governance or the Continental model. Do your research results fix the difference between these two groups of countries as for the link between the board of directors' variables and firm performance?

Grazia Onorato: Dear Alex, thank you so much for your appreciation and your stimulating observations. We checked the regression model both at the whole sample level and for each geographical area. North American subsample (the US and Canada) exploits an Anglo-Saxon governance model, while in the European subsample we have UK companies along with continental ones. Anyway, we will check the regression model for the 2 subsamples of Anglo-Saxon governance model countries and Continental governance model countries. Check the attached sample.

Table 1. Dataset used in the research

Country of Headquarters	N.	Continent	N.
Canada	7	Europe	31
China	7	America	65
France	3	Asia	23
Germany	3		
Italy	4		
Japan	6		
Korea; Republic (S. Korea)	6		
Netherlands	3		
Switzerland	6		
Taiwan	4		
United Kingdom	12		
United States of America	58		
	119		119

Alex Kostyuk: I see your point, Grazia. I would try to test the sample again by making certain changes within two groups of the companies. In the group of Anglo-Saxon countries, I would include the UK as their corporate governance practices and the board model are closer to the USA and Canada. It would be interesting to see the results in this way.

Shab Hundal: Dear authors, the topic is very appealing. Does the score in Table 3 (Data & Methodology) of slides vary sequentially?

Pasquale di Biase: For items with binary outcomes we adopted a dichotomous scoring approach, with mutually exclusive scores of 0 (when the company is not compliant with the item or in the case of lack of relative information) and 1 (when the company is compliant with the item). Differently, for ordinal variables, we elaborated a graduated scoring based on the interval scales described in the following table.

Table 2. Variables and a graduated scoring based on the interval scales

Variable	Score scale
Audit committee non-exec. member	
Audit committee independence	
Nomination committee non-exec. member	If <=10% = 0
Compensation committee non-exec. member	If >10% and <=30% = 0.2
Compensation committee independence	If >30% and <=50% = 0.4
Board specific skills	If >50% and <=70% = 0.6
Independent board members	If >70% and <=90% = 0.8
Non-executive board members	If > 90% = 1
Strictly independent board members	
Board meeting attendance	
	If <=10% = 0
Board diversity	If >10% and <=25% = 0.4
	If >25% and <=40% = 0.8
	If >40% = 1
	If <= 0,5 = 1
Board member affiliations	If >0,5 and <=1,5 = 0.8
	If >1,5 and <=3 = 0.4
	If >3 = 0
	If <= 6 = 0
Number of board meetings	If > 6 and <=10 = 0.4
	If >10 and <=14 = 0.8
	If >14 = 1

Pasquale di Biase: Individual scores are then combined into a “category score” for each of the 4 board features. These are computed as the simple average of the scores assigned to the variables included in each category. Category scores have been rescaled to make all the elements lie between 0 and 100. So, the final category score is a continuous variable.

Mireille Chidiac El Hajj: I totally agree with Professor Kostyuk. There is a large difference between the different continents in terms of CG. Please refer to Miguel Mendez and the *Corporate Governance a US/EU Comparison*.

Pasquale di Biase: Dear Professor Kostyuk and dear El Hajj, we just checked the regression on 2 subsamples: countries exploiting the Anglo-Saxon CG model (the USA, Canada, and the UK)/countries exploiting Continental CG model (Continental Europe and Asia). We attach the results.

Table 3. The regression-based on 2 subsamples: Countries exploiting Anglo-Saxon CG model (the USA, Canada, and the UK)/countries exploiting Continental CG model (Continental Europe and Asia)

	USA, Canada, UK	Continental Europe + ASIA
BCs	0.00427	0.00063
BSs	0.01206***	0.01019***
BIs	0.01175***	-0.00989***
BOs	-0.00264	-0.00126
ROE	0.03168***	0.03561***
ETA	0.0153***	-0.00462
Constant	-0.7115	0.91774***
<i>Standard error</i>	<i>1.545198</i>	<i>0.563522</i>
<i>R2 overall</i>	<i>0.144689</i>	<i>0.305207</i>
<i>Adj R2</i>	<i>0.135686</i>	<i>0.293754</i>
<i>N. Observations</i>	<i>577</i>	<i>371</i>

Notes: (1) * denotes significance at 10% ($p < 0.1$), ** denotes significance at 5% ($p < 0.05$), *** denotes significance at 1% ($p < 0.01$); (2) Numbers in parentheses below each coefficient show *t*-statistics.

Pasquale di Biase: The empirical model confirms that board structure and board independence are the most relevant governance factor. However, board structure (BSs) has a positive and statistically significant regression coefficient, while board independence (BIs) shows a positive and statistically significant coefficient for Anglo-Saxon subsample and a negative and statistically significant coefficient for continental Europe and Asian companies. It is confirmed that a board committee score and board operativity are unrelated to performance.

Khaled Otman: Dear Pasquale, your research is very interesting. Could you consider using another industry and compare it with the insurance industry?

Pasquale di Biase: Dear Khaled, thank you for your appreciation and suggestion. We agree with you: a comparison with another industry, maybe also another financial sector such as banks, could improve the research.

Stergios Tasios: Dear Pasquale, this is an interesting paper. Did you consider using other measures of profitability such as Tobin's Q or the percentage of profit margin in the regression model?

THE PREDICTORS OF CORPORATE SOCIAL RESPONSIBILITY (CSR) COMMITTEE

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Abstract

This paper aims to investigate the factors that have a significant impact on the existence of the corporate social responsibility (CSR) committee from the perspective of stakeholder theory. Since COVID-19 (Coronavirus) has re-emphasized the prominence of sustainability and sustainable and resilient organizations, the concept of sustainability or CSR committee has gained importance again. The impact of sustainability committees on CSR performance has already been investigated. However, the variables affecting the existence and efficiency of CSR committees have been less scrutinized in the literature. Thus, this empirical paper fills the gap in the literature, guides the practitioners on the factors influencing the creation and efficiency of the CSR committees, and inspires the regulatory bodies to ponder on a new paradigm of mandatory sustainability committees to form resilient and sustainable organizations in the world. Finally, it is found that the companies paying higher executive compensation, using sustainability incentives in executive remuneration contracts, and having a better ESG performance do generally have CSR committees. Overall, this paper indicates that the forming of an efficient CSR committee requires the adaptation and implementation of a holistic sustainability policy by considering the multiple factors at the same time.

1. INTRODUCTION

Scientists, epidemiologists, and ecologists have stated that COVID-19 is a sign of overexploitation of habitat, wildlife, and environment, which facilitates the appearance of new dangerous sicknesses (Bennett, 2020; Gatti, 2020; Kaplan, 2020; Manzanedo & Manning, 2020). COVID-19 is the worst-hit and has the worst devastating and brutal impact on the global economy and health systems; it has reached all corners of the world (Hassan, Hollander, Lent, & Tahoun, 2020; Noy, Ferrarini, & Park, 2020). Unfortunately, it is not over yet.

The COVID-19 pandemic has re-emphasized the prominence of sustainability and stakeholder approach. Sustainability is not a topic of 'comply or explain' anymore. It is a requirement for everyone- businesses, governments, and the general public- around the globe to comply with. Thus, the businesses should ponder on how to develop sustainable and resilient policies and sustainable corporate governance and production systems and how to change their focus from financial performance to environmental, social, and governance (ESG) based performance, if they have not yet.

García-Sánchez, Gómez-Miranda, David, and Rodríguez-Ariza (2019) found that the existence of the CSR committee has a positive impact on the adaptation of sustainability strategies and the promotion of the use of the Global Reporting Initiative (GRI) guidelines. Moreover, Meena and Avani (2018) debated that companies with CSR committees tend to integrate environmental and social concerns in their business operations and interactions with their stakeholders and to adapt the triple-bottom-line (TBL) approach. TBL approach posits that corporations should commit to the three *P* (people, planet, and profit), instead of one bottom line. In other words, the organizations with the CSR committee can address the expectations of shareholders and stakeholders at the same time. On the other hand, Baraibar-Diez and Odriozola (2019) reported that the sustainability committee triggers better ESG performance and promotes the tools to enhance corporate non-financial performance and sustainability. As noted, prior scholars have emphasized the importance of the CSR committee to be committed to sustainability policies and sustainable and resilient structures and to achieve ESG based performances.

If the CSR committees have an impact on more resilient and sustainable businesses and the environment, as discussed above, then it is the right time to investigate how to create an effective board CSR committee. The majority of the prior studies have examined how the CSR committee impacts sustainability and non-financial performance, but the knowledge on the factors affecting the existence of CSR committees is still scarce. Thus, this paper fills in the gap in the literature and guides the practitioners on the factors playing a significant role in the creation of a CSR committee. Specifically, this paper investigates whether firm

financial and ESG performances, the level of total and variable CEO compensation, and firm, CEO, and board characteristics have any impact on the existence of the CSR committees.

To sum up, the results of the study aim to report the significant predictors in creating a CSR committee and to draw the prototype of the companies having CSR committees since investors presume that the existence of the CSR committee is an indication of a social and environmentally responsible firm (Cucari, Esposito De Falco, & Orlando, 2018).

2. THEORETICAL FRAMEWORK

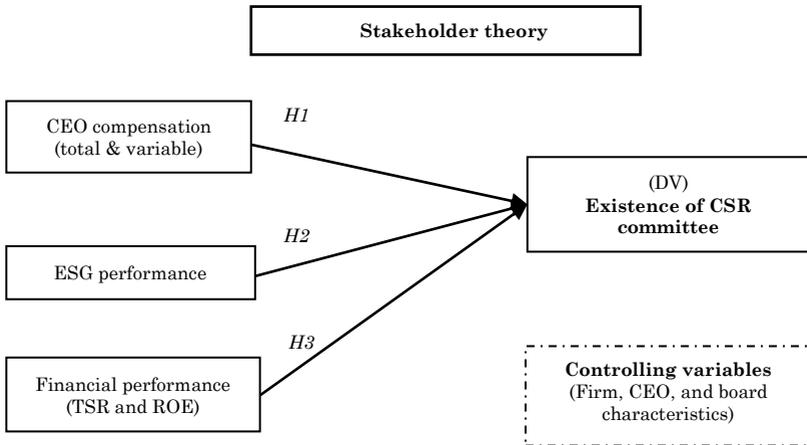
CSR has been discussing by practitioners, academics, and policymakers for many decades. It is not a new paradigm. However, the COVID-19 pandemic and recession re-emphasized the importance of this concept and its implementation to the businesses and governments. One way of adopting CSR policies in organizations is the creation of CSR committees (Valle, Esteban, & Pérez, 2019).

World Business Council for Sustainable Development has defined CSR as the business's commitments to behave ethically and to contribute to economic development while considering society and the environment (Meena & Avani, 2018). In a way, the CSR committee is in charge of CSR policies and its implementation, and the sustainability performance of the firm. The prior studies have been reported a closed association among CSR or sustainability committees, ESG performance, corporate governance, CSR disclosure, and firm characteristics (Baraibar-Diez & Odriozola, 2019; Cucari et al., 2018). Moreover, Abdelmotaal and Abdel-Kader (2016) reported a nexus between the existence of the sustainability committees and the use of sustainability incentives in executive remuneration contracts.

Biswas, Mansi, and Pandey (2018) also examined the impacts of board independence and the existence of a board sustainability committee on the corporate social and environmental performance in the Australian context. They found that firms with greater board independence and CSR committees have better social and environmental performance. Moreover, it is found that higher corporate social performance firms have the following common board characteristics: a larger proportion of independent directors, non-CEO duality, tenured directors, female chair, and smaller board size (Eberhardt-Toth, 2017). Martinez-Ferrero and Garcia-Sanchez (2017) analyzed the link between the sustainability committees and corporate governance factors in the stakeholder-oriented countries. Another study also stated that the role of stakeholders influences corporate decisions and the determinants of the level of CSR activity, such as the existence of a sustainability committee and ESG policies (Roberts, 1992). In other words, the stakeholder approach has an impact on CSR activities. In line

with Martinez-Ferrero and Garcia-Sanchez (2017), the research framework in this paper depends on stakeholder theory. Stakeholder theory was developed by Freeman and became part of the management discipline in 1984 (Abdullah & Valentine, 2009). It posits that the role of the corporations is to serve the interest of a broader group of stakeholders, such as internal stakeholders (managers and employees) and external stakeholders (shareholders, suppliers, customers, local communities, government regulatory agencies, environment, and the general public) (Baraibar-Diez, Odriozola, & Fernández Sánchez, 2019). The stakeholder theory requires that all stakeholders’ expectations should be reflected in the organizations’ decisions (Eklund, 2019; Hilb, 2016; Schaltegger & Burritt, 2017). To do so, the existence and effectiveness of the sustainability or CSR committees are critically important for the organizations. Based on the literature review and stakeholder theory, the research framework is illustrated in Figure 1. As depicted in Figure 1, this paper empirically investigates the association between the existence of the CSR committee and executive compensation (*H1*), ESG performance (*H2*), and financial performance (*H3*) by controlling firm, CEO, and board characteristics.

Figure 1. The research framework with theoretical adaptation and hypotheses



3. METHOD

This paper includes a panel data set of 1498 firm-year observations from 2009 to 2017. The publicly listed companies on the Swiss Stock Exchange (SIX) are investigated. The association between sustainability committee existence and the level of executive compensation is analyzed in the Swiss market because Switzerland is unique from the perspective of

executive compensation: the highest executive compensation paying country in Europe, and the country's direct democracy structure, such as a consensus base culture and the public referendum on CEO pay (Rost & Weibel, 2013; Sharma, 2019).

Because it is a panel dataset and the dependent variable is a dummy (1,0) variable, the logistic regression with year and sector fixed effect are utilized. Moreover, the robustness checks are done for the model goodness fit, omitted variable bias, multicollinearity, and heteroscedasticity. Thus, it can be concluded that the model is robust, and the results are reliable.

4. RESULTS

The preliminary results of the study show that *H1* and *H2* are supported at a 5% level. There is a significant and positive nexus between the existence of the CSR committee and executive compensation for both total and variable pay. Moreover, the existence of the CSR committee is significantly linked to higher ESG performance_(t and t-1). On the other hand, *H3* is not supported. There is no association between better TSR and ROE performance and the existence of the sustainability committee. To sum up, executive compensation and ESG performance are the significant predictors of the sustainability committee, but not the firm performance. It is also found that the use of sustainability incentives in executive remuneration contracts, board independence, firm size, firm risk, and CEO tenure is the significant determiners of the sustainability committee.

5. CONCLUSION

This empirical paper investigated the influencing factors on the existence of the CSR committee and debated on how to create an effective CSR committee. It is found that the common characteristics of the firms with CSR committees are as follows: a higher level of total and variable compensation, the use of sustainability compensation incentives in their compensation programs, and a better ESG performance. It indicates that to have an effective CSR committee, you should consider the factors of ESG performance and ESG based compensation systems at the same time because they are also significant indicators of sustainable and resilient corporate governance systems. In other words, forming of CSR committee requires the adaptation and implementation of a holistic sustainability policy.

This paper has various implications. First, by highlighting the importance of CSR committees and contributing to the gap in the literature, this paper motivates scholars to conduct comparative research in this area. Second, it helps practitioners who intend to create CSR committees or improve the effectiveness of their existing board CSR committees. Third, it raises the attention of the policymakers on

sustainable corporate governance tools and systems, which may inspire them to formulate policies on new paradigm-mandatory board CSR committees.

As a limitation of the study, this paper focuses merely on the Swiss market. This limitation may open doors to future comparative studies on this topic.

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CONFERENCE FORUM DISCUSSION

Mehtap Eklund: Welcome to my channel. In this channel, I present a paper on the CSR committees and CEO compensation. This paper aims to investigate the factors that have a significant impact on the existence of the corporate social responsibility (CSR) committee from the perspective of stakeholder theory. Since COVID-19 (Coronavirus) has re-emphasized the prominence of sustainability and sustainable and resilient organizations, the concept of sustainability or CSR committee has gained importance again.

Mehtap Eklund: I am looking forward to getting your valuable comments on this preliminary manuscript. All the valuable comments are appreciated in advance. Here is my video for you to present the paper.

Mehtap Eklund: Check out the predictors of CSR committees: https://cdnapisec.kaltura.com/index.php/extwidget/preview/partner_id/2370711/uiconf_id/42910141/entry_id/1_3ntkgfbc/embed/dynamic

Alex Kostyuk: Hello Mehtap, I found your paper very interesting from the point of view of the stakeholder approach to corporate governance. Besides that, your paper contains numerous interesting innovative terms. For example, one of these terms is “sustainability incentives in executive remuneration contracts”. What are the basic criteria of the sustainability incentives in executive remuneration contracts”? Does it mean that companies should introduce specific sustainability metrics (and what sort of metrics?) and link these to the specific remuneration (longer-term, company stock-based, etc.)?

Iliana Haro: Hi Mehtap, I saw your video thanks for taking the time to prepare it. You mention that in order to have a sustainability committee first the organization will need to have a sustainability policy implemented; I agree with you otherwise the committee would not make sense. However, I wonder what are the specific components of that policy that you foresee that should be included, particularly those related to a global crisis like the spread of the COVID-19. What are your thoughts in this regard?

Dmitriy Govorun: Dear Mehtap, thank you very much for the ideas highlighted in your paper and the video. You have mentioned in your paper that findings help “practitioners who intend to create CSR committees or improve the effectiveness of their existing board CSR committee”. What are your ideas about the key steps for improving the effectiveness of existing CSR committees? What should practitioners do to take the pandemic aspect as well?

Mehtap Eklund: Dear Alex, thanks for your valuable inquiry. It is a great question. “Sustainability incentives in executive remuneration contracts” is a dummy variable and it is collected via the Eikon (Thomson Reuter) database. In the database, it is defined as “is the senior executive’s compensation linked to sustainability/CSR targets” 1: Yes, it is linked to or 0: No, it is not linked to.

Mehtap Eklund: Dear Dmitriy, thanks for this inquiry. The COVID-19 pandemic has re-emphasized the prominence of sustainability and stakeholder approach. Sustainability is not a topic of ‘comply or explain’ anymore. All of us should start implementing sustainability strategies if we haven’t yet. The policymakers may suggest a new regulation on the mandatory CSR committees and this committee should monitor the ESG performance of the company and develop the ESG based compensation schemes. We should change our focus from shareholder approach to holistic stakeholder approach and from financial performance to sustainability performance that includes financial, environment, and social success at the same time. The investors are demanding more and more ESG disclosures on the annual reports and this demand has increased after the COVID-19. The SEC is working on the harmonized ESG disclosures. Hope that COVID will bring us more sustainable economies and businesses in the long run. Thus,

the existence and effective CSR committees are more crucial now. At least, this is my synthesis of the recent literature and personal thought.

Alex Kostyuk: Dear Mehtap, I see your reference. What do they mean in practice by “sustainability/CSR targets”? Does it mean a method of linking financial ratios in the long-run to executive compensation? Probably, they have at hand some CSR and sustainability metrics.

Mehtap Eklund: Yes, you are right. Refinitiv has an ASSET 4 database and it has 450+ ESG (sustainability) indicators over there. For the compensation and it is linked to CSR indicators, companies disclose the structure of the compensation schemes in the compensation report in Switzerland. On that report, they can also disclose whether their CEOs’ compensation is linked to ESG or CSR indicators or to financial indicators (TSR) or not. This information was compiled from the compensation report.

Mehtap Eklund: Thanks for this question. Yes, you are right. From my viewpoint and understanding, the firms should have a sustainability strategy first. Then, they should decide on how to implement this strategy in real life. The ESG indicators and GRI reporting standards may help them to implement the sustainability policy into the real-life and measure it. Sustainability BSC (SBSC) is also a great tool to implement the sustainability strategy to the firm operation. It is a holistic approach. Creating a CSR is not adequate if the company does not have a mindset of sustainability or does not have a long-term sustainability strategy and goal. This is my personal standpoint on this matter.

Alex Kostyuk: Thank you for the details, Mehtap. I see that companies should have so-called “sustainability/CSR” targeting implemented in the company strategy, as you said. Probably, the last issue I would like to ask. If the companies have sustainability/CSR targeting, it means that they should have sustainability/CSR reporting (I mean separate sustainability/CSR reports published and released by companies annually). I think that this practice is not implemented by many companies. In your case, for example, in further research, you could provide 1 point to the companies with both sustainability/CSR targeting and reporting (public reporting). This is rather a strict approach but this could consider the issue of public reporting as a part of sustainability/CSR practices.

BOARD INTERLOCKS AND ISOMORPHISM IN ACQUISITIONS: A REVIEW AND RESEARCH AGENDA

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Abstract

This paper offers an analysis of board interlocks as a source of imitation in the context of corporate acquisitions. Mimetic effects in firms' acquisitions have been identified at multiple levels, especially in terms of acquisition activity and acquisition premium. This paper, therefore, analyzes extant literature on interlocks as drivers of isomorphism in firms' acquisition behavior and offers potential avenues for future research.

1. INTRODUCTION

One of the most vibrant lines of inquiry in the corporate governance literature is board interlocks (Gulati & Westphal, 1999), acknowledged as complex inter-organizational relationships that help manage environmental uncertainty and dependence on external resources (Zona, Gomez-Mejia, & Withers, 2018), provide access to unique information (Haunschild & Beckman, 1998), enable the diffusion of practices between connected firms (Westphal, Seidel, & Stewart, 2001; Shropshire, 2010), and activate learning processes. Indeed, a striking feature of board interlocks is that they represent exceptional learning opportunities for firms and a primary source of relational experience (Haunschild, 1993; Haunschild & Beckman, 1998).

Interlocking directorates have been increasingly regarded as an indicator of social embeddedness that eventually creates the conditions for exercising a social influence on corporate decisions

(Granovetter, 1985; Davis, 1996). Indeed, especially under conditions of environmental uncertainty and turbulence, firms are likely to imitate the decisions of other firms to which they are connected by social network ties (DiMaggio & Powell, 1983; Galaskiewicz, 1985). Therefore, extensive academic efforts have been devoted to examining the role played by board interlocks in eliciting isomorphism in several decisions, among which corporate acquisitions have represented a central research territory: management scholars have regarded interlocks as a social explanation for acquisition choices and have explored the importance of board ties in guiding acquisition behavior and acquisition decisions (Haunschild, 1993).

2. BOARD INTERLOCKS AS A SOURCE OF IMITATION IN ACQUISITIONS

Isomorphism has been investigated in the context of acquisitions as a potential conduit enabling firms to engage in a form of exploratory learning without incurring any costs and risks, to tap into the experience of other firms and, possibly, to learn to acquire more successfully (DeLong & Deyoung, 2007). Particular research attention has been devoted to the extent to which a firm's acquisition propensity and acquisition activity reflect the propensity and activity by tied-to firms. The information advantages associated with board interlocks become particularly helpful in the pre-acquisition phases (De Sousa Barros, Cárdenas, & Mendes-Da-Silva, 2020): interlocking directorates facilitate the selection and filtering of relevant information and can provide access to information about potential candidates for acquisition, thus substantially reducing search costs (Nahapiet & Ghoshal, 1998). Furthermore, interlocks reduce information asymmetry, thus lessening transaction costs and adverse selection issues associated with potential opportunism by target firms and contributing to select better acquisition opportunities (Zhang, 2016).

Inter-organizational relationships based on interlocking directorates have also been recognized as a potential driver of the acquisition premium (Haunschild, 1993). Further examining such effects, Cai and Sevilir (2012) suggest that when two firms share a common board member before a deal announcement, which they define as a first-degree connection, the acquiring firm will be able to acquire at a more favorable premium price thanks to both the information advantage and other potential bidders being discouraged. Additionally, even in the case of outside bidders, interlocks may place the tied acquirer in an advantaged position in terms of access to valuable and unique information and greater bargaining power in negotiation compared to non-tied firms. As opposed to the previous case, a second-order connection occurs when one director from the acquirer and one director from the target have been serving on the board of a third firm before

the deal announcement. Second-order connections tend to be associated with a greater value creation compared to first-order connections: while in first-order connections, the common director represents both the acquirer's and the target's shareholders, in second-degree connections, the two connected directors represent their respective firm's shareholders. Hence, directors in second-degree connections are more likely to execute deals only if they are expected to generate superior combined returns (Cai & Sevilir, 2012).

3. RESEARCH DIRECTIONS AND CONCLUDING REMARKS

This review highlights several potential avenues for future research, which may be grouped into three main research directions: imitation scope, potential effects on performance results at both firm and industry level, and potential cross-fertilizations with other theoretical perspectives.

Studies on the mimetic effects of board interlocks in acquisitions have mostly focused on two main research lines: the effects on acquisition activity (Westphal et al., 2001; De Sousa Barros et al., 2020) and the effects on acquisition premiums (Haunschild, 1993; Cai & Sevilir, 2012). However, studies devoted to imitation in acquisitions from other sources beyond board interlocks – e.g., peers – have explored many additional imitation bases, including the type of acquisition in terms of product relatedness (Yang & Hyland, 2006) or geographic scope (Yang & Hyland, 2012), governance (Moatti, 2009) and ownership (Yang, 2009; Yang & Hyland, 2012) decisions, and location decisions (Baum, Li, & Usher, 2000). Such studies may hence inspire future research on imitation via board interlocks and open up research opportunities especially in terms of extending the imitation scope beyond acquisition activity and acquisition premium to include also additional decisions that characterize the acquisition process.

This review suggests interesting research avenues related to the effects on performance at both firm- and industry-level. At the firm-level, performance results are still mixed: while multiple benefits associated with interlocks have been acknowledged, several studies have highlighted also negative implications. For instance, Ishi and Xuan (2010) argue that the social embeddedness derived by interlocks leads to a familiarity bias, which reduces the overall quality standard of due diligence, increases the chances that synergies will be overestimated, and leads acquirers to ignore potentially more attractive opportunities. Furthermore, other studies have found that interlocks encourage agency conflicts, as executives connected by personal relations may guide decisions in their boards towards acquisitions that maximize their own interests at the expense of their companies' interests (Jensen, 1986). Research has also shown that another potential source of negative performance is directors simultaneously serving on multiple boards

(Lamb & Roundy, 2016) as they are forced to selectively allocate their time and efforts across the diverse boards on which they sit, which ultimately weakens the quality of governance (Li & Ang, 2000).

At the industry-level, imitation is assumed to erode performance heterogeneity within an industry (Lippman & Rumelt, 1982) due to the neoclassical expropriative effect (Schmalensee, 1985): imitation logically implies an increased similarity between the imitator and its model as the imitator expropriates practices from the model, which both erodes its competitive advantage and ultimately causes a convergence of profitability. Opposite to this argument, Posen and Martignoni (2018) propose that imitation may rather enhance the performance heterogeneity in the industry because, after imitation, the imitating firm engages in experiential learning efforts to both refine the imitated practices and filling the remaining gaps. These opposite lines of reasoning may deserve investigation in the context of acquisitions, which per se determine significant industry-level structural changes.

Interesting lines of inquiry may be established thanks to theoretical cross-fertilizations. The literature on acquisitions has suggested that acquisition decisions are subject to path dependence, according to which firms tend to be consistent over time in their strategic decisions, thus replicating previous courses of actions, especially if they have proved to be successful (Amburgey & Miner, 1992). It, therefore, seems that path dependence and isomorphism may actually act as contrasting pressures on a firm's behavior. In the context of acquisitions, where separate evidence has been found of both path dependence and institutional isomorphism in explaining acquisition decisions, it would be particularly interesting to investigate whether board decisions are more influenced by their own previous decisions or by the social networks in which they are embedded.

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CONFERENCE FORUM DISCUSSION

Mehtap Eklund: It is a very interesting paper. May I kindly ask you to explain “isomorphism in corporate acquisitions” a bit for me?

Ilaria Galavotti: Dear Mehtap, thank you for your question, which gives me the opportunity to better outline the concept of isomorphism. The notion of isomorphism used in this paper has an institutional nature, i.e., it is regarded in terms of imitation of practices. If we think of organizational theories, isomorphism has been regarded in two main ways. In a population ecology perspective, isomorphism with the external environment enables the survival of organizations; in this context, isomorphism has a competitive nature: because those organizations that are not able to compete for resources do not survive, those that are retained in the environment are logically isomorphic. On the contrary, from an institutional perspective, isomorphism refers to the tendency of firms in the same organizational set to imitate each other in a homogenization process. In the context of acquisitions, which represent extremely complex events in a firm's life, board interlocks represent social ties that may push firms to imitate the acquisition decisions of tied-to-firms. Firms connected through interlocks basically become models that can be imitated in a focal acquisition.

Dmitriy Govorun: Dear Ilaria, I'm very pleased to read your review concerning acquisitions and board interlocks. You have mentioned that your review outlines several questions that may be interesting for further research. You've pointed out that “it would be particularly interesting to investigate whether board decisions are more influenced by their own previous decisions or by the social networks in which they are

embedded." My question should be the following: how do you see the way of conducting such research (data, methodology, research hypothesis, etc.)?

Ilaria Galavotti: This is a very interesting, yet challenging question. Identifying an approach to empirically test this research avenue raises a number of operationalization and measurement issues. I think that in terms of the research setting, we should observe firms having board interlocks and prior acquisition experience, i.e., that have conducted acquisitions in the past. Though there may be several options, ideally, we should identify a dependent variable that captures either the likelihood or the extent to which the focal acquisition is "similar" to prior acquisitions (i.e., influence is exercised by a firm's own path) vs to decisions of tied-to-firms (i.e., influence is exercised by social ties). In terms of research hypotheses, I think that, in addition to more "traditional" approaches to hypotheses development, developing competing hypotheses may be particularly interesting in order to address both these contrasting pressures on a firm's corporate decisions. Overall, my opinion is that the main objective should be to explore the contingency factors that push a firm towards replicating its own prior experience, especially if rewarded by positive performance results, or towards imitating the behavior of interlocking firms.

Iliana Haro: Dear Ilaria, congratulations on your paper. I found it deeply interesting. Sadly, Mimetic Theory has not been analyzed and integrated into corporate governance studies and practices, even though according to René Girard most of our decisions are just the result of a mimetic process, same happens with the development of path dependencies. I also agree with you that defining the data, methodology, and research hypothesis is challenging and requires an innovative perspective. Do you think that competitive intelligence analysis would help you to explore this topic?

Ilaria Galavotti: Dear Iliana, thank you for your encouraging comment. In my opinion, competitive intelligence analysis would be helpful to explore imitation in acquisitions beyond board interlocks and, especially, to investigate what Haunschild and Miner (1997) defined as a trait-based imitation. In this imitation mode, firms imitate the practices of a given subset of other organizations. While in the case that you suggest, social ties that determine mimetic processes may derive from the observation of competitors rather than from the existence of interlocking directorates, for sure the information and approaches typical of competitive intelligence may be extended also in this specific research context.

Dmitriy Govorun: Thank you very much for your comment and detailed reply. Good point regarding exploring the contingency factors before. Have you investigated/designed a preliminary list of such factors? Which of them to your experience should appear in the factors list?

Ilaria Galavotti: I think that many factors may play a contingency role in this sense. One, for instance, could be performance relative to aspirations: if performance is below aspirations, firms may be more likely to imitate the acquisition choices of interlocking firms in the attempt to improve their own performance, vice versa, if performance is above aspirations, firms may be more prone to replicate their previous acquisition choices as they proved to be successful. Another could be the experience asymmetry in acquisitions between the focal firm and the interlocking firms: if tied-to-firms have greater acquisition experience compared to the focal firm, I would expect that the likelihood that the focal firm imitates the acquisition choices of these more experienced tied-to-firms would be stronger. On the contrary, if the focal firm is more experienced than the tied-to-firms, directors may be more willing to continue in their strategic momentum.

CAN THE NOMINATION COMMITTEE AFFECT BANKS' ESG CONTROVERSIES? EMPIRICAL EVIDENCE FROM THE EUROPEAN SYSTEMICALLY IMPORTANT INSTITUTIONS

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Abstract

Banks differ from non-financial institutions because of their high leverage and complexity, due to information asymmetries and a lower quality of risk monitoring, leading to reputational implications. The objective of the analysis is to shed a light on the importance of the nomination committee (NC), considering several characteristics of NC members such as education level, gender, age, curriculum vitae in order to reduce the likelihood of the bank incurring ESG disputes. Moreover, we extend the analysis to other governance features, as the presence of non-executive board members on the NC, the percentage of NC members who are significant shareholders (more than 5%), and the number of meetings during the year, i.e. meeting frequency.

In particular, this abstract examines the relation between board characteristics, the role of the NC and bank's environmental, social and governance (ESG) controversies score in a sample of global system important banks (G-SIBs). Despite there is an extensive body of literature on the relationship between different types of bank committees

and financial performance, to our knowledge, little is known about the role of NC and bank's ESG controversies score.

For the purpose of this study, we initially collected financial data of all G-SIBs from the BankFocus database, while the information on the NC members was manually collected using the non-financial reporting; finally, the governance data and the ESG controversies score were retrieved from the Datastream database. The ESG controversies score measures a company's exposure to environmental, social, and governance controversies and negative events reflected in global media. The empirical analysis is conducted over the period from 2017 to 2019 because the main important regulatory initiatives on banks' board composition and directors' qualifications were implemented just in these three years (EBA, 2020).

We consider the establishment of the NC as a key attribute in order to fulfil objective assessment, to improve board effectiveness, control executive's behaviour, and monitor operating in the duty of care.

In spite of the essential role of the NC to the board, the literature on the aforementioned topic is scant especially on its influence on ESG, therefore, this research aims at filling the gap in the previous literature and at contributing to agency theory.

Several studies have analysed the structure of the governance and performance, indicating that a bank's profitability may be affected not only by balance sheet variables but also by decision-making and board structure (Pathan & Faff, 2013; García-Meca, García-Sánchez, & Martínez-Ferrero, 2015; Talavera, Yin, & Zhang, 2018). Scholars adopt the agency theory (Fama, 1980; Fama & Jensen, 1983; Jensen & Meckling, 1976) to understand corporate governance and board attributes in relation to the financial performance of both financial and non-financial institutions. As it is well known, agency theory supports the need for separation of ownership and control, since managers pursue personal objectives in terms of wealth and conversely, they are less involved in boosting shareholders' value (Fama & Jensen, 1983; Jensen & Meckling, 1976). Indeed, in order to reduce moral hazard phenomena and adverse selection problems (Gomez-Mejia & Wiseman, 2007); shareholders exert control decisions over the management, by delegating their duties to the board, outside directors, and nomination committee (Combs, Ketchen, Perryman, & Donahue, 2007). The creation of the NC is directly linked to its most important function which is to nominate both new director and proper candidates for the board (Soana & Crisci, 2017; NYSE, 2009) in order to reduce the influence of firm CEOs on the director selection process (Vafeas, 1999; Eminent & Guedri, 2010). Thus, this external process of individuation, assessment, and choice for the best candidate ensures the independence and the quality of the nominees, improving both director's qualification and independence. Moreover, the selection process can settle the asymmetry between boards and management (Ruigrok, Peck, Tacheva, Greve, & Hu, 2006), and

the establishment of NC tackles agency conflict trying to align hired board members collaborate to accomplish shareholder's interest.

Among the involvement of the NC into different responsibilities, such as the assessment of the board individuals and the supervision of directors' program, the monitoring on education programs for directors and the guidance for board's annual review, the duty of the NC is also related to the main choices that could affect bank's reputation concerning ESG practices (Soana & Crisci, 2017). The members of the nomination committee should be independent non-executive directors (NED) and be chaired by the chairman or an independent non-executive director (Agyemang-Mintah, 2015). Even in the global system important banks (G-SIBs) the composition of NC for the majority is relative to independent directors (Soana & Crisci, 2017).

Existing evidence proves that the increasing number of independent director nominees is likely to be influenced by the percentage of outside members of which the NC is made of (Ruigrok, et al., 2006; Kesner, 1988; Bilimoria & Piderit, 1994; Vafeas, 1999). Additionally, a high level of independence in NC is also related to the designation of directors with a higher reputation capital (Vafeas, 1999).

Indeed, researches on banks' corporate governance highlighted the importance of some board characteristics, among which board independence still is an important feature in analysing board composition. In general, board independence is associated with a high-performance level followed by a decrease in risk exposure (Jensen & Meckling, 1976; Fama & Jensen, 1983), because a board, which is management-independent, increases its effectiveness (Dalton, Daily, Ellstrand, & Johnson, 1998; Johnson, Daily, & Ellstrand, 1996). Moreover, independent board members can favour performance objectives, lowering risk-appetite in order to control reputational risk. However, if the share of independent directors with financial expertise increases, risk appetite choices would increase as well leading to higher risk exposure (IMF, 2014).

In particular, it has been shown that NC independence reduces the manager's risk-taking initiatives and so the losses (FRC, 2012; 2016). Moreover, Vafeas (1999) argued that NC composed of outside board members improves its functioning, operating efficiently. Findings indicated no significant relationship between independent directors and default risk (Adams & Mehran, 2012; Erkens, Hung, & Matos, 2012). Additional studies showed a decrease in bank risk associated with a higher number of independent directors (Wang & Hsu, 2013; IMF, 2014). Evidence of higher independent directors in the NC leading to higher performance (Zajac & Westphal, 1996) and lower stock price responses to non-executive director assignments (Shivdasani & Yermack, 1999).

This study aims at extending the debate on corporate governance for financial institutions, considering a sample of G-SIBs. This, because, according to "Guide to fit and proper Assessments" (ECB, 2017) for

significant institutions referred to in Capital Requirements Directive (CRD) IV¹, the declaration should be drafted with the involvement of the NC, in accordance with the obligations of this committee established by Article 88, paragraph 2 letter c) of the CRD.

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¹ Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.6.2013, p. 338).

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CONFERENCE FORUM DISCUSSION

Dmitriy Govorun: Dear colleagues, thanks for your efforts in researching such an interesting topic. NC is really important in terms of board effectiveness. Thanks for sharing your research approach in your presentation and paper. Especially, for the banking sector. I also support the idea that banks are quite specific institutions. While studying the research I've found the following variables description regarding NC. Nomination Committee Independence is measured as a percentage of non-executive board members on the nomination committee. Have you tried to take the data on the percentage of non-executive independent directors in NC?

Antonia Patrizia Iannuzzi: Hi Dmitriy, thank you very much for your suggestion. Our main source is the Rifinitive database that unfortunately does not include this information. However, we will try to hand-collect this information from the banks' governance reports.

Mythili Kolluru: Your research is interesting. I wanted to understand your findings on NC commitment features like experience and age have any relation to the banks' ESH controversies?

Antonia Patrizia Iannuzzi: At this stage of the research we want to collect as much information as possible about the compositions and members of the NC. We assume that if NC members have experience in ESG, the bank may be less involved in ESG disputes. Likewise, it is plausible to assume that a lower average age of NC members could have a positive impact on bank sustainability disputes because it is recognized that the sustainability issue is much more attractive to the younger generations who are responsible for developing processes and strategies that must bear fruits (generate effects) in the long-term period. Older generations may be less interested in sustainability issues as the fruits of such strategies do not come in the short term.

Mythili Kolluru: Thanks Antonia, for the detailed explanation. Do the banks have a set of credential requirements for the NC committee members? Are these requirements contact for all banks?

Simona Galletta: To answer your question, yes, banks are required to publish the CVs of their directors. Also, in this respect Bankfocus database provides information, but it is confusing. Therefore, we preferred the CVs and official documents available from the individual banks.

Manuela Lucchese: Dear authors, I think that this is a very interesting topic. I wonder if you considered if the NC composition (I mean, the age/the tenure into the group) effects the ESG score selected. Sometimes, different ages and different tenure in a committee could affect differently the selected ESG score.

Simona Galletta: Dear Manuela, thank you for the suggestion! The composition of the NC is considered by examining in detail the members of the NC bank by bank, based on the available

information. As you correctly call, we expect the different characteristics you mention to impact differently on our dependent variable.

Alex Kostyuk: Dear Stefano, Elisabetta, and colleagues, I think that the issue of the board committees is still a hot topic for research. For example, how the composition of the nomination committee should reflect the gender issue requests. At the same time, the key issue that is still to be resolved and answered is about how to arrange a clear, fair, transparent, wise, and cost-saving process of searching, nominating, and selecting those (nomination committee members) whose main duty is to search, nominate and select the directors?

Elisabetta D'Apolito: Dear Alex, thank you very much and certainly a very important research question for our work and we will try to implement it in the paper to identify possible drivers, to give some food for thought and answer to this question.

Alex Kostyuk: I think you and your colleagues will succeed with your research, Elisabetta. I do not remember previous literature exploring the relationship between the nomination committee performance and gender issues in particular. You have a chance to start a new pathway in corporate governance research.

Elisabetta D'Apolito: This is an answer from Prof. Stefano Dell'Atti: "In banks, like listed companies, the nomination committee should be composed mainly of independent directors (one of these also plays the role of Chairman). There are no specific indications on diversity gender; if the independents are also women then one could also think of a female presence. With regard to the process of selecting who will play future roles in the bodies (directors and auditors): before identifying the figures, the process should first start with the analysis of the skills needs. The fit & proper requirements precisely concern a mix of varied skills (legal, financial, IT, etc.) with a view to diversification and complementarity of skills. Once the skills have been identified, one should move on to looking for figures that possess in addition to the requisites of competence also other requisites (respectability and professionalism granted). The number of positions held and the time available to fill a new position are two relevant factors".

Alex Kostyuk: Thank you, Stefano, for your answer. I know that minority shareholders' rights protection always was a not resolved issue in Italy (in many other countries too). It was because of concentrated ownership as the main reason.

THEORETICAL ASPECTS OF CIVIL LIABILITY OF OFFICERS OF CORPORATE GOVERNANCE BODIES

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Abstract

The legal personality of a legal entity is embodied in the activities of its management bodies, the purpose of which is to strive to achieve the results of business activities and meet other interests of the legal entity, its participants (founders). However, in the process of interaction between the management bodies of a legal entity, situations arise when the participants in such interaction pursue different or mutually exclusive goals, which is due to the polar desire to secure corporate interests, which leads to a corporate conflict.

According to Zhornokuy (2015), under the conditions of non-transparency of the majority of domestic joint-stock companies, their main advantages are implemented through current management and decision-making, largely through shadow schemes involving officials of the corporate governance body. Under such circumstances, it is easy to underestimate the profit or even harm the legal entity. Therefore, for a shareholder who has received the appropriate corporate rights, but does not have a real opportunity not only to influence but also to control management decisions, investments are risky.

At the turn of the XX-XXI centuries, the legislation of Eastern European countries has increased the trend towards convergence of the national legal system with the legal systems of other countries. An important factor in effective cooperation in the international

economic sphere is an effective mechanism for protecting participants in corporate legal relations, which is achieved by introducing stable global legal practices into the national legislative space.

One of these is the construction of the legal liability of officials of the corporate governance body for the harm caused by their actions in the relevant area.

In Ukraine, the regulatory implementation of this legal structure is associated with the spread of threats to the stability of the banking system, such as the implementation of risky operations by banks (excessive lending to persons associated with the bank).

The study of this institution requires the terminological certainty of the concept of corporate governance, which has more economic content than legal. Moving in this direction, it should be recognized that its formula is that the subject of such management is the one who ensures the legal personality of the legal entity, which is revealed in its known features.

Consequently, the corporate governance system consists of the management bodies of the legal entity, which ensure its organizational unity and participation of the legal entity in a civil turnover on its own behalf. Such bodies are the Supreme management body – the corporate rule-making body (general meeting of participants (shareholders) and the executive management body – the management board, the directorate (director) (Yusoff & Alhaji, 2015).

Today, there are five main models of corporate governance that are based on historical, cultural, and industry-specific factors (Anglo-American, German, Japanese, Soviet, and post-Soviet). It is considered that these models of corporate governance have a territorial context of financial capital concentration. The development of each of them received not only a theoretical basis but also a practical scope of its application. Despite this, the principle of building the corporate governance structure of a legal entity remains a factor of their unity.

Due to the differentiated nature of corporate governance and the multidimensional nature of its legal personality, the scope of authority to manage a corporation cannot be concentrated within the authority of a single entity.

This variation in the competence of corporate governance bodies of a legal entity provides for the differentiation of the level of legal responsibility of their subjects. Its criterion is the content of the activities of the relevant body in relation to ensuring the legal personality of a legal entity, through the implementation of such features as the latter's structural unity and participation in a civil turnover on its own behalf, which provides for the presence of administrative, economic and organizational and administrative components.

From the above, the scope of legal responsibility includes subjects of corporate governance, whose competence includes the exercise of their

executive powers. These are the officials of the executive body of corporate governance of a legal entity.

This logic, in one form or another, is contained in the Law of Ukraine "On joint-stock companies", Article 63 of which establishes the responsibility of officials of the joint-stock company for losses caused to the company by their actions (or inaction), and further in Article 89 of the commercial code of Ukraine, establishing the responsibility of officials for damages caused by other than joint-stock companies acts done with excess or abuse of power, actions, committed in violation of the procedure for their preliminary approval or other decision-making procedure, and so on.

The studied aspect of the issue establishes the general conditions of the legal responsibility of corporate governance officials. As of today, the doctrinal definition and normative provision in the legislation are that such conditions are the unity of the subjective and objective elements of the tort, which in our opinion is not justified.

The granting of administrative, economic, organizational, and administrative powers to the officials of the corporate governance body of a legal entity to manage it and the property belonging to it forms the fiduciary nature of such relations.

In turn, fiduciary relations between a legal entity, its founders (shareholders), and officials of the relevant corporate governance body form a different legal model of interaction between them. Confidence in the integrity and goodwill of the party with whom the principal is in a relationship based on his trust does not imply that he expects the irrational behavior of the attorney.

Because the fiducia between participants of these relations creates higher risks of abuse, it is correct, in our opinion, to establish legal factors of not only reasonable compensation to the injured party, which is the institute of compensation of harm as such, but also to establish the prevention of abuse, other types of malevolent behavior increased the legal liability of officers of body corporate legal entity management by exception guilt as a condition of responsibility. In this method, the existing disparity in the legal capabilities of participants in the studied trust relationships is balanced, one of which is in a legally weak state.

It should be noted that these ideas of the rights of the weak side are formed in the doctrine of the law in the early twentieth century in the works of Y. S. Hambarov. Therefore attempt to justify the existence of "innocent responsibility" and the distribution of limits on corporate relations makes sense and has a clear legal tradition (Hambarov, 1911).

In the opinion of Joffe (as cited in Bratus, 1976) the obligation to compensate the damage that was caused without fault has a stimulating effect on such person – mobilizes this person to look for and introduce into the sphere the new funds contributing to if not solve, mitigate or reduce the manifestations of that force majeure. In other words, such

a duty is related to influencing the consciousness and will of the person who caused the harm, so it is a responsibility (Bratus, 1976).

Thus, the principle of civil liability regardless of the fault of the delinquent becomes a reasonable balance in ensuring the interests of the legal entity and the implementation of the professional competence of the corporate governance body and its officials.

Thus, the basis of the professional competence of an official of the corporate governance body of a legal entity is the objective compliance of its actions and decisions with the business standard. The level of such competence should allow this person not only to prevent them from committing actions or making decisions that may cause harm but also predict the possible negative consequences of their own professional activities. In turn, establishing the responsibility of an official, regardless of his guilt, only increases the requirements of care and attention that are imposed on him.

The following conclusions can be seen from the above. First, the significance of the fault of an official of a corporate governance body is leveled by the obligation of the necessary level of competence, which not only presupposes the predictability of possible negative consequences of this person's activities in the field of corporate governance but also requires their prejudice. It is obvious that the responsibility of a person for the occurrence of such negative consequences is the result of professional incompetence, that is, guilt.

Therefore, guilt as a subjective attitude of a person to actions that are committed by it in the field of corporate governance, their consequences are absorbed by the possibility of not only prejudice but also foreseeing possible negative phenomena due to the proper level of professional competence of the person.

It should be noted that the science of financial management has developed methods for managing financial risks, the main importance of which is the functioning of appropriate mechanisms to minimize their negative consequences, including limited risk concentration, hedging, diversification, risk avoidance, risk distribution, and so on.

Such a characteristic feature of risk as a manifestation of an uneven assessment of this objective phenomenon implies the presence of a level of management qualification and the ability to predict its occurrence and neutralize the negative consequences associated with its identification, assessment, prevention, and insurance.

Thus, an important feature of the activity of officials of the corporate governance body of a legal entity is the awareness of accepting the risks of their activities and managing them. In the above case, on the one hand, protection of the rights, interests, and legitimate expectations of parties to corporate legal relations, including legal entities increases, and on the other hand, to objectivists threshold standards of integrity of civil servants of the corporate governance requirements of their professional competence increase. Through

the principle of "innocent (objective) responsibility" of officials of the corporate governance body for harm caused when making and implementing management decisions, the rights, interests, and legitimate expectations are filled with real content.

Under the above conditions, the reason for the release of such an official from responsibility is only a case (*causa*), that is, a circumstance that the person was not able to foresee by taking appropriate measures of his professional care, which are required of him under specific conditions.

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Ja Kim: It is an interesting idea. I may suggest some extra considerations that might be helpful. In the COVID-19 environment where we are now for a while, foreseeing the negative phenomena using the current risk management tool is very difficult or even impossible. In such a case, it is difficult for the management to foresee the negative impact nor to prevent it. I believe putting the civil liability to the management in such circumstances can be difficult or unfair. What do you think? Given that negative outcomes often come out years after

the misconducts of several people trying to hide them, how can someone find out who was in guilt ultimately based on years-ago behaviour?

Bashar H. Malkawi: It could better to adopt the piercing the corporate veil principle to determine liability and the standard of business judgment. Delaware law provides guidance on this. It is worth exploring.

Anatoliy Kostruba: Dear Bashar Malkawi, thank you for your recommendations. It is valuable for me. From what I can gather, the corporate veil principle is based on another approach. In my case, it is not a subsidiary liability. CEO is directly responsible and in full.

Anatoliy Kostruba: Dear Ja Kim. I am grateful for your comment. It makes me think that the main idea for professional management is to predict any negative consequences of their business activities due to the level of competence.

Alex Kostyuk: Dear Anatoliy and colleagues, the role and responsibilities of the CEO is a very relevant issue to discuss. If we discuss it for the unitary board model, where CEO and Chairman positions can be taken by one person (like the US practice) we could consider this issue from the point of view of a possible conflict of interests. In Ukraine, companies utilize a two-tier board model with Supervisory and Management Boards. Our foreign colleague should know that the CEO can not be a member of the Supervisory Board (CEO takes a seat on Management Board). In this context, the leading role belongs to the issue of information disclosure and reporting (financial) by the CEO to reduce information asymmetry. Agency costs can grow up under such a model, therefore all efforts of shareholders to monitor and control the activity of the CEO should be effective from the point of view of costs. So, the more responsibilities CEO receives from shareholders (better said Supervisory Board) the more mechanisms of corporate control should be used by shareholders to monitor and control CEO activity. Therefore, this is about the optimization of the responsibilities of the CEO as a very acute problem for recent corporate governance worldwide.

Anatoliy Kostruba: Yes Alex, I agree with you. It should be mentioned that my point of view corresponds to the legal component of the issue and you with economical ones. But we need to tie it up...

Alex Kostyuk: Agreed, Anatoliy, recently coming through a challenge of the pandemic, corporate governance should mix both legal and economic approaches. It should be balanced from the point of view of roles, rights, and responsibilities of all participants of corporate governance including CEOs, and the point of view of various costs, like agency or transaction costs, accompanying corporate governance as a set of processes. To be frank, in many countries, in Ukraine too, this balance was absent even before the pandemic. Probably, the pandemic will accelerate the move toward a search for such a balance.

CEOS, ORGANIZATIONS AND CORPORATE GOVERNANCE IN TIMES OF COVID-19: NARCISSISM AND INTEGRATED PSYCHOPATHY THE OTHER PANDEMIC

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Abstract

This study explores the impact that CEOs, executives, and leaders with narcissistic traits, narcissist personality disorder, and/or with forms of integrated psychopathy have in organizations and the repercussions that their decisions have in their organizations and communities during the pandemic of the coronavirus disease COVID-19. COVID-19 arose at the end of 2019 and so far, has had its major health, social, organizational, and economic impact during 2020. It has presented researchers in a multitude of areas, industries, and territories an exceptional opportunity to observe and analyze how a global physical threat like COVID-19 affects organizational leaders at all levels and how they cope with it. One way of coping is by implementing and fostering health behaviors like prevention. Indeed, there are a number of factors impacting the enactment of prevention measures, and one of such factors appears to be personality traits related to adaptive and maladaptive behaviors (Nowak et al., 2020), being maladaptive behaviors related to the lack of implementation or violation of prevention actions.

In June 2020, the proprietors of Europe's largest meat-processing plant were required to be accountable for a mass coronavirus outbreak that infected more than 1,500 of its workers and that sent around 7,000 persons into quarantine as a result of the outbreak, while schools and kindergartens in the region of Gütersloh in North Rhine-Westphalia, Germany were forced to close for a second time during the year. As consequence, the company was accused of endangering not only its workers but also public health in general (Connolly, 2020). Unfortunately, this has not been an isolated case, all around the world political leaders, schools and hospital directors, and organizational leaders general have been spotlighted by their decisions and their consequences on their employees and communities (Ahn, 2020; Brammer & Pavelin, 2013; Chen, Zhang & Jia, 2019; Fauver, & Fuerst, 2006). In light of such problematic, this study underlines how decision-making processes are highly affected by the personality of the leader and how decisions and actions differ from CEO's, executives, and leaders with narcissistic traits, narcissist personality disorder, and/or with forms of integrated psychopathy (Al-Shammari, Rasheed, & Al-Shammari, 2019; Boddy, 2015; Cragun, Olsen, & Wright, 2019; Gál, Mrva, & Meško, 2013; Tversky & Kahneman, 1974) and how global threats do not seem to affect in a positive form their behavioral patterns.

A narcissistic personality disorder shows "a pervasive pattern of grandiosity (in fantasy or behavior), need for admiration, and lack of empathy, beginning by early adulthood and present in a variety of contexts" (American Psychiatric Association Publishing, 2013, p. 669; Skodol, Bender, & Morey, 2014). On other hand, integrated psychopaths have been recognized by being "social predators who charm, manipulate, and ruthlessly plow their way through life, leavening a broad trail of broken hearts, shattered expectations, and empty wallets" (Hare, 1999, p. xi). Persons with narcissistic personality disorders are characterized among other aspects by their high capacity to gaslighting and manipulate others to do or get from them what they want as well as to consider themselves above the law and to be in a position to risk the well-being of others; since, charm, manipulation and almost ruthless assertiveness characterize their daily interactions, in organizations these personality disorders are usually confused by a great leadership (Piñuel, 2015; Chamorro-Premuzic, 2019; Babiak & Hare, 2006; Campbell & Miller, 2011; Masterson, 1981; Sarkis, 2018; Simon, 2010, 2011) and in consequence, are admired, promoted, motivated and at times even protected while risking the entire organization balance.

This analysis aims to present theoretical research that describes the general context of leaders with narcissistic traits, narcissist personality disorder and/or with forms of integrated psychopathy particularly in CEO positions, the dynamics that seem to surge with their board of directors (Ahn et al., 2020), and the consequences that employees and communities have to face due to incidence of these

personalities in leadership positions (Al-Shammari et al., 2019; Pousset, 2019). It also proposes a corporate governance approach (OECD, 2004, 2015) to face this different pandemic (Pargendler, 2016), in face of corporate responsibility. These elements should help to evaluate the degree to which the conclusions drawn from this research are transferable to other times, companies, industries, and communities.

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Alex Kostyuk: Your paper is absolutely interesting from the point of view of corporate governance and organizational behavior, mixed into organizational psychology. Your major statements are challenging a lot. You explore the impact that CEOs, executives, and leaders with narcissistic traits, narcissist personality disorder, and/or with forms of integrated psychopathy have in organizations. Certainly, all the above influence negatively the board of directors' performance. Do you think that corporate governance mechanisms recently used by the companies worldwide are able to prevent or "treat" the above personal disorders or

we need to improve them remarkably or even introduce anything new?

Iliana Haro: Regarding your question, the answer is NO, definitely not, and this is really shocking since the reason because we have had the need to implement corporate governance rules all around the world is because these kinds of personalities have managed organizations for decades, they have caused multinational corporations collapses, economic and financial crisis and nowadays they are risking lives of employees, families, and communities. So, the proposal would be to include as part of corporate governance practices psychological measures that prevent these people from getting to the top of the companies so they don't cause more damage.

Lucrezia Fattobene: This is very interesting research. Are you also thinking about conducting empirical research on the subject?

Iliana Haro: Hi Lucrezia, thanks for taking the time to read my paper. The answer is yes, I do intend to perform empirical research. However, studying narcissism and integrated psychopathy presents a huge challenge, they will never accept themselves as narcissists or psychopaths, so the strategy for this study has to be carefully calculated.

Hadfi Bilel: I commend the author for the choice of her subject and for focusing attention on the psychology and behavior of people and especially those responsible during the coronavirus period. Moreover, the phenomenon of corona phobia plays an important role in changing the behavior of investors in the stock market, etc.

Iliana Haro: Hi Hadfi, thanks for your kind words of encouragement. They are truly valuable to me. It is a huge challenge you know. But the truth is that these personalities are destroying economies, corporations, and lives and I believe corporate governance can make a real difference in people's lives.

Alex Kostyuk: Iliana, your answer is what I thought about – “So the proposal would be to include as part of corporate governance practices psychological measures that prevent these people from getting to the top of the companies so they don't cause more damage”. In this case, this task of “prevention” should be delegated to somebody. Do you assume the nomination committee, Chairman of the Board, or the Board as a whole?

Iliana Haro: What a wonderful question, Alex! As you know from my previous work I am all against complicated corporate structures that only add additional burdens and that instead of fomenting channels of communication and creativity they only present more and more barriers for the development of organizations. However, in this particular case, and due to the impact that having CEOs, directors of the board, managers, and any other kind of leader displaying any form of Cluster B personalities, I do believe that a committee would be necessary, and it should be a fully independent committee. It cannot be any member of the Chairman or the Board as a whole because research has demonstrated so far that narcissism and integrated psychopathy are present not only in CEOs but also in board members.

Alex Kostyuk: I like the idea you mentioned, Iliana, very much.

The idea of simplified but effective governance structures. So, we could address a new duty to the existing committee of the board, called, for example, nomination committee, but before doing this we will improve the composition of the committee through introducing there a new member with expertise allowing guiding the function above. Am I right?

Iliana Haro: Yes Alex, you are right. First, we would need a committee for that sole purpose. Secondly, we would need to determine the right number of members (all independent) that would be part of the committee, since there is a big risk that the evaluation of candidates not only for CEO positions but for members of the board, directors, and any other levels with decision-making faculties, be affected by some kind biases it is always better to have a panel formed solely by specialists in Cluster B personalities disorders. And third, it would be necessary to determine the correct assessment tools to evaluate the candidates. We need to be aware that they are masters of manipulation and deception and appear to be charming and charismatic so we need tools that evaluate them without the risk of following into their traditional maneuvers.

Alex Kostyuk: Perfect! That is a cost-saving mode of implementation of the proposal mentioned above, Iliana.

Alex Kostyuk: I see your statement, Iliana, that "we would need to determine the right number of members (all independent) that would be part of the committee". Probably, you intend to mention that the widely used criteria of independence of the board members are not effective enough and should be advanced? To be frank, during the last decade when editing the scholarly papers I did not meet the similar intention of researchers (to reconsider the director's independence criteria) and always asked myself the same question: "Is the issue of the directors' independence criteria has been solved any time in the past and the time does not influence this issue at all again?"

Iliana Haro: Yes Alex, that is the case in this particular issue. For this committee we are not talking only about outside directors who do not have a direct economic interest in the organization, we are going beyond that, we are talking about professionals who actually do not have direct and broad experience and connections with the industry of the organization. Their contribution and oversee is related to behavioral sciences, however, they should have relevant business knowledge in order to understand the context in which C-Level executives are performing. Otherwise, we would be talking about trying to cure a disease with the wrong medicine.

Alex Kostyuk: I see your point, Iliana. Do you think that recently the infrastructure of the market for directors both executive and non-executive is efficient enough to support your proposal in practice?

Iliana Haro: From the structural point of view, yes, it is possible. In most corporate governance systems the presence of independent directors and any necessary committees is not only included but also promoted. However, what will become a big challenge is that organizations allow them to happen. One bigger issue with Cluster B

disorders in leadership positions is that they give the impression of "high achievers" and in some cases; they do perform well but for the wrong reasons. So, the question will be if organizations will be willing to sacrifice their "perceived success" in exchange for stakeholders' protection.

Bashar H. Malkawi: This is an interesting paper indeed. I wonder if there could be comparisons between the US, EU, and Japanese corporations?

Iliana Haro: It all depends on what you want to compare. The corporate governance frameworks in terms of CEOs & members of board psychological profiles, or the degree of incidence of Cluster B disorders in C-Levels, or the frequency of leaders of firms making or not making decisions relevant to health care protection measures during COVID-19. It all depends on what we want to find out.

Ilaria Galavotti: Dear Iliana, thank you for your research, which tackles a really interesting research area, as psychological aspects and behavioral traits play a fundamental role in decision making. I am perfectly aware that empirically testing this kind of research question may pose incredible challenges so my question/suggestion is related to the measurement of narcissism. For instance, one of the most adopted measures is the Narcissistic Personality Inventory (NPI) or, again, an alternative could be to use unobtrusive indicators of personality (Chatterjee & Hambrick, 2007, 2011). In this respect, I would also have a question on whether we can use the implications of CEOs narcissism to proxy it: though it is typically considered as a personality disorder, if we rather consider it as a personality dimension, which, among other factors, tends to be associated with a sense of superiority, then do you think that we may establish a sort of connection between narcissism and overconfidence so that we can use proxies of overconfidence to capture narcissism?

Iliana Haro: Thanks Ilaria, as you correctly mention the NPI is one measurement tool that could be applied here, while in the case of integrated psychopathy it could also be possible to use the Hare Psychopathy Checklist, however the issue with psychopathy is that it was recognized as a disorder before the DSM-5 was published and nowadays the only sociopathy is included. Sociopathy and psychopathy even though share some common traits are not the same, unfortunately. Now, regarding if narcissism can be seen as a personality dimension, I don't think so. When we are talking about personality disorders we need to establish that individual is exhibiting at least 5 of all the behaviors that the DSM-5 lists as characteristics of the disorder. A sense of superiority or overconfidence per se and alone are not a signal of narcissism, we still need to determine for example if the person is manipulative, exploitative of others, lacks empathy, and so on. A sense of superiority and overconfidence alone could be personality traits that emerge in response to specific situational stressors or mental stages like being a CEO.

Mireille Chidiac El Hajj: Hello Iliana. The idea of this study is

interesting. I find nevertheless 2 issues: first, it is a qualitative study based on a mix of psychology, behavior, corporate governance, and so on. What is needed is to clearly define the link between all these different subjects, as it lacks. Secondly, what is the methodological tool used to conduct this research? It cannot be found in the abstract or the slides. Unless you would be referring to the grounded theory.

Iliana Haro: Thanks for your observations Mireille I will take them into account.

Alex Kostyuk: I see, Iliana, a key issue of your presentation, you have just mentioned: "So, the question will be if organizations will be willing to sacrifice their "perceived success" in exchange for stakeholders' protection". So, what is your expectation, if the organization will be willing or not, probably depending on various factors, like the country, the role of regulators, minority shareholders' rights protection, shareholder activism, the influence of stakeholders, etc.?"

Iliana Haro: So, now you are tackling the main point of the conference Alex, the COVID-19. As many reports in the news have shown us, apparently and sadly the answer is probably not always, unless there are major consequences like the case of the outbreak of COVID-19 in one firm that lead the entire town to get into a second lockdown at the beginning of the summer. A key factor again is the "perceived success" by the company, in the case of that firm the perceived success had been reflected on a steady economic performance amid de coronavirus, until the success was affected by the community opinion due to the damage caused to the community health and freedom, results like these are key to reorient the appointment of CEOs and other organizational leaders. My bet is on the cultural background and type of corporate governance system. If we are talking about a stakeholder-oriented CG is more likely that they take this approach, if we talk about a purely shareholders-oriented CG, results are financial results period. There is a long battle ahead to be fought indeed, but we need to begin at some point, and right now looks better than never.

Iliaria Galavotti: Thank you for your clarification. So, basically, it is more about CEOs with undiagnosed, persistent mental disorders than about narcissistic personality per se. Thank you for clarifying this point.

Iliana Haro: Ilaria, according to research by Dr. Iñaki Piñuel there are no CEOs with diagnosed integrated psychopathy or narcissism, they simply don't consider themselves as suffering any kind of disorder or deficiency, as their sense of grandiose would contradict with the need of being mentally assessed. That is why the proposal would be to include as part of the evaluation for any relevant leader position in organizations to include the measurement of the existence of these disorders.

Alex Kostyuk: So, Iliana, I see your entire idea. I agree with you that the COVID pandemic can be used as a reason to ignite the engine of corporate governance to implement your proposals. In doing so, we hope for enhanced sustainability of companies in the, and after the period of the pandemic.

SESSION 2: CORPORATE GOVERNANCE IN FAMILY FIRMS

CYBER SECURITY IN FAMILY BUSINESSES – EMPIRICAL ASSESSMENTS FROM THE PERSPECTIVE OF GERMAN SMES

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Abstract

In the context of increasing digitalization and networking, the importance of cyber security is also growing for family businesses and is moving onto the management agenda as a cross-divisional, group-wide challenge. The study of 415 companies conducted by the Aalen Institute for Corporate Management (AAUF) shows that even though family businesses identify cyber security as a relevant field of action, they do not sufficiently address the organizational framework and the procedural implementation. This paper is dedicated to the examination of this phenomenon. The potential causes of this phenomenon will be discussed.

1. INTRODUCTION

In the literature, there is a discussion regarding the “preparedness” of German companies for cyber attacks. Literature research (Bartsch & Frey, 2018; Corradini & Nardelli, 2018; Hausken, 2020), as well as empirical data (Kolek, 2018; Wrede, Freers, & Graf von der Schulenburg, 2018), show that a holistic approach (COSO, 2017; ISACA, 2019) that integrates cyber security into the organization-wide procedures and processes, is particularly relevant here. Meaning that also family businesses must take measures not only on a technological but also on

an organizational as well as procedural level in order to achieve an appropriate magnitude of cyber security. As organizational implementation measures to avoid risks and strengthen resilience in the event of cyber-attack internal regulations, such as protocols and guidelines, are indispensable to obligate the members of the organization to certain courses of action (Gabel, Heinrich, & Kiefner, 2019). In addition to established organizational charts, these define who is responsible for which intermediate step and which areas are involved in decisions and in which forms of action it is ensured that the individual measures are established as planned (Gabel et al., 2019). Structuring in terms of responsibilities, communication, and decision-making processes enables decision-makers to take appropriate measures and make decisions even under time pressure. This is the only way to limit the resulting and ultimately unavoidable damage in case of a cyber attack and to ensure that business activities can continue undisturbed as quickly as possible. This also includes emergency planning, which, in addition to an emergency team, includes the emergency response plan as a core element. This plan defines immediate reactions and contains guidelines considering not only the technical but also organizational, communicative, and legal challenges (Neufeld & Schemmel, 2017). In this way, the requirement is created for the company not to be forced to act exclusively reactive, but rather to be able to control and act (Gabel et al., 2019).

2. THEORETICAL FOUNDATION

A possible cause for the existing phenomenon that family businesses are well aware of the importance of cyber security but the degree of implementation of measures and the establishment of systematic cyber security management is insufficient could be due to the “socio-emotional wealth” (SEW) in family businesses. It is assumed that family businesses have the necessary knowledge in dealing with cyber security and see the necessity of establishing a holistic approach but refrain from implementing it for fear of losing control. This should explain why family members occasionally behave opportunistically; they do so in order to protect their socio-emotional assets, even if this entails financial costs (Hiebl, 2013). Instead of leveraging managerial levers in a way that builds a cyber security culture driving cyber security behavior to prevent, detect and respond to cyber-attacks effectively, family businesses are often prepared to take considerable business risks by diversifying less, only to preserve SEW as a consequence (Berrone, Cruz, & Gomez-Mejia, 2012). One reason for this is that owners of a family business often associate their identity with the organization, they are proud to be part of a family business (Hiebl, 2013). Usually, the company even bears the name of the family (Stiftung Familienunternehmen, 2017). The possible sources of SEW are manifold, taking into account authority

and power, status and prestige, succession, and duty as well as capital formation and altruism (Gomez-Mejia, Cruz, Berrone, & De Castro, 2011).

3. METHODOLOGY

The data collection was carried out by means of a standardized online questionnaire containing open and closed questions. In order to check the questionnaire, a pre-test was first carried out with several test persons. Subsequently, the actual survey was conducted between October and December 2019. For this purpose, e-mail addresses of German companies were randomly selected in advance using the Nexis database. The study does not claim to be representative; a broad opinion on cyber security should be surveyed. The company sizes were limited to 50 employees and 10,000 employees.

A total of 14,495 companies were contacted by e-mail, of which 1,612 e-mails could not be delivered. Thus, 12,883 companies received the link to the online survey. The online questionnaire was accessed 415 times during the survey period, which corresponds to a participation rate of 3,22 percent. 372 companies answered the questions asked, with 188 companies having terminated the survey prematurely (utilization rate: 89,64 percent). This brings the sample size to 184 companies and the response rate to 1,43 percent. For the study, we conducted a test for non-response bias according to Armstrong and Overton (1977) by examining the first and last third of responses for differences in structure and content. There was no evidence of bias.

In this context, it should be noted that individual questions may nevertheless be mentioned differently, as the partial non-response (item non-response) was not taken into account in this report. This is due to the fact that the questionnaire was deliberately designed without specifying mandatory questions since in some cases very topic-specific and sensitive data were requested. The data were evaluated using Microsoft Excel and SPSS.

4. RESULTS

The study shows that 61 percent of family businesses give high priority to cyber security (47 percent high and 14 percent very high); and cyber risks are also given high priority by around one in two of the family businesses surveyed (35 percent high and 16 percent very high). Nevertheless, 47 percent of the family businesses surveyed stated that cyber security is not part of their corporate strategy. The results, therefore, show that less than half of the family businesses have integrated cyber security into their corporate strategy. This is alarming since a holistic security concept is absolutely necessary in order to be able to recognize and counteract any weaknesses within the organization at an early stage. A well-functioning information security management

system (ISMS) integrated into the organization can be an effective tool in this regard. However, the results of the survey show as well that only 38 percent of the family businesses surveyed have implemented an ISMS. 62 percent of the family businesses do not claim to use an ISMS. A well-structured ISMS, aligned to internationally recognized standards such as ISO/IEC 27001 or of the Federal Office for Information Security (BSI, 2017) offers the optimal basis for an efficient and effective implementation by defining procedures and rules in an organization with the goal of permanently establishing, controlling, monitoring, and continuously maintaining information security (Deloitte, 2019). The existence of an emergency response plan in case of a cyber attack was also questioned. Only 38 percent of the family businesses that participated in the survey have an emergency response plan.

The results of this study show that although some companies have recognized the relevance of cyber risks as well as cyber security, there is often a lack of strategic organizational implementation in order to successfully master the challenges that companies face.

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CONFERENCE FORUM DISCUSSION

Dmitriy Govorun: Dear Patrick, thank you very much for sharing this topic with us. Taking into account many regulation changes in the EU and other countries this topic is not new but highly important. I should admit that cyber security is vital for business – from SMEs to multinationals with huge corporate structures. Data issues and security issues may lead to substantial losses for the business. Actually, you mention in your study that “61 percent of family businesses give high priority to cybersecurity (47 percent high and 14 percent very high); and cyber risks are also given high priority by around one in two of the family businesses surveyed (35 percent high and 16 percent very high). Nevertheless, 47 percent of the family businesses surveyed stated that

cybersecurity is not part of their corporate strategy”. It seems that it is a very interesting outcome to discuss. Have you thought over what is the reason for such a result? What do you expect in the nearest future, should we expect changes in corporate strategies?

Vanessa Frank: Thanks for the message above. I think it is because cyber security is not on the agenda of the top decision-makers (C-Level). These are of course concerned with digitization, but more with “exciting” topics like apps, platforms, and ecosystems. We have also conducted accompanying expert interviews that confirm this. But cybersecurity can only work if there is at least a strategic awareness of the problem.

Dmitriy Govorun: Thanks for your comment and a reply. Did you study or asked in your interviews whether GDPR or similar regulation force firms and C-Level to be more aware of cyber security?

Vanessa Frank: Thanks for the very good advice. We did not address this issue in our study, but we will take it up in a qualitative follow-up study.

Shab Hundal: Dear Vanessa, do your results vary across the industry/sector characteristics? For example, tech companies may place a high value on cybersecurity than their traditional engineering counterparts.

Vanessa Frank: Thank you very much for your comment. We have included industries and sizes.

Maria Guedes: Do you have any idea if there were echoes of resistance in more traditional family firms to adopt this?

Vanessa Frank: Thank you for your comment! What do you mean exactly?

Maria Guedes: I have the idea that family firms that are more conservative resist a change and will have more resistance to adapt or adopt anything that differs from the “what they usually do and how they usually do” paradigm. I would say that younger firms would adopt more.

Vanessa Frank: This is a very good aspect, thank you very much!

Manuela Lucchese: Dear authors, I think that cybersecurity governance is a critical issue, which accelerated sharply following the pandemic. I would like to ask you how did you construct the survey and if your results are different in accordance with the entity size.

Vanessa Frank: Thank you for your message! In our study, we mainly compared cost centres such as training measures, response plans to cyberattacks, IT audits and investments in new technologies and systems based on the size of the company. The results were not surprising – larger companies invested more. When asked about cyber-insurance, we received a relatively balanced result. Annual spending on cybersecurity also decreased with company size. Potential for improvement in cyber-attacks in terms of training, recovery, response, prevention, evaluation, and identification showed little

difference with company size. Companies also assess the relevance of the topic relatively uniformly.

Vanessa Frank: We made an online questionnaire with open and closed questions. The survey was conducted between October and December 2019. The sample size amounts to 184 companies. Nevertheless, deviations in the mentions due to partial non-response occur in some cases.

Vanessa Frank: The questionnaire contained 36 questions divided into six sections. First, information on the company and the person responsible for processing the data was requested, followed by a survey on the understanding and awareness of cyber risks and their potential for damage. The next section focused on preventive security measures, followed by an assessment of cyber-risk management and cyber-security management.

Vanessa Frank: In order to generate a significant database, 14,495 companies were contacted in the period from 23.10.2019 to 31.12.2019. 372 companies participated in answering the questions asked while 184 companies processed the complete questionnaire. The majority of the evaluated companies has an annual turnover of less than 100 million euros and between 100 and 1000 employees. Most companies are indicated to operate as GmbH or GmbH & Co. KG. The sample of companies reflects a wide range of industries. Most of the respondents are employed in the respective IT departments or operate as managing directors of the companies.

Ja Kim: This is an interesting paper. The paper (abstract) was easy to read. However, as you mentioned in the abstract, the AAUF study already found the same finding as your paper. So, what is the new contribution of your paper? What is the new contribution you are trying to make?

Vanessa Frank: Since the topic of cyber security will become even more important in the future due to technological progress, the Aalen Institute for Corporate Management (AAUF) has conducted a study on cybersecurity in German medium-sized businesses. The aim of the study is to present the current status of cyber-crime, cyber-risks, and cyber-security in German medium-sized businesses and especially in family businesses. The focus is on the design of cyber security management and current challenges.

Dmitriy Govorun: thanks for your replies. Agree that cyber security will become even more important in the future. Do you count somehow the cost of cybersecurity implementation in SMEs while focusing on the design of cyber security management?

Vanessa Frank: Thanks for your message! We asked whether financial resources were available in the company for the defense. According to annual spending on cyber security. And which investment costs are planned in 2020 compared to 2019.

CYBERCRIME IN MEDIUM-SIZED FAMILY BUSINESSES – HUMAN RISKS VS. TECHNICAL RISKS

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Abstract

Entrepreneurial activity and everyday work are increasingly performed with the help of digital technologies (Gerdenitsch & Korunka, 2019). The associated integration of different social and business processes contains opportunities for companies, but also risks, which are often difficult to estimate (KPMG, 2017). As a consequence of the advancing digitalization, innovative developments and networking companies offer an ever-greater target for cybercrime (PwC, 2017). The attack attempts to become more and more aggressive and are also increasing significantly in quantity (PwC, 2018). According to an estimate of the German Federal Association for Information Economy, Telecommunications, and New Media, the overall economic damage for companies in the years 2017-2019 was 205.7 billion € (Bitkom, 2020).

For companies, potential dangers from cyber-attacks arise, in particular, from the circumstance that data is being spied on, changed, or destroyed and this can have a noticeable effect on companies and consequently lead to substantial economic damage. Due to the technological expertise and the high competitiveness of German companies, especially these companies are an interesting target for cyber attacks from all over the world (Bundeskriminalamt, 2018). An essential part of the occurring cyber security incidents can be attributed to the human factor, which is supposed to be the weakest link in the security chain. According to a study of the consulting firm KPMG phishing, malware, and social engineering can be identified as the three most common types of cyber attacks, which thereby use people as intermediaries for access to internal company data (KPMG, 2017).

Such attacks exploit human behaviour and characteristics such as fear, helpfulness, trust, or curiosity, in order to manipulate people. By feigning a false identity and intention of the perpetrator, victims become urged to reveal confidential information, to circumvent security features, or install malicious software on a device used for business purposes (BSI, n.d.). In such cases, employees are confronted with psychological stress situations, as they do not have sufficient information for sustainable, goal-oriented, and rational decisions (Wiederhold, 2014).

Especially within family businesses, the psychological aspect of employees is of great importance (Becker & Ulrich, 2015). According to Koeberle-Schmid (2008), family businesses can be defined as companies in which at least one family member is an active member of the top management or supervisory board, and more than 50 percent of the voting rights are actually owned by the family. The main differences between family businesses and ordinary companies can be illustrated by the concept of the "socio-economic wealth (SEW)" according to Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, and Moyano-Fuentes (2007), which emphasizes the "affective needs" of the family.

Accordingly, non-financial goals play a greater role in family businesses than in non-family businesses, due to the owners' identity in connection with their company and the emotions associated with it. Based on this, entrepreneurial decisions are not only based on the profit and loss of a company, but also on the influence that a business decision has on the name of the company (Behringer, Ulrich, & Unruh, 2020). Especially for the maintenance of family influence, decisions in family businesses can have irrational characteristics and strongly affect risk attitudes in the company (Gómez-Mejía et al., 2007).

The increased relevance of cyber-security in companies as well as the special psychological and emotional conditions of family businesses lead to the question of to what extent family businesses can master the challenges associated with increasing cyber-crime. For this reason, the Aalen Institute for Corporate Management (AAUF) conducted a study on cyber security in German medium-sized companies in 2019. The study focused, in particular, on the question of the extent to which family businesses differ from non-family businesses in dealing with cybercrime and the importance of the human factor in this context. As a result, the complex of topics "human risks versus technical risks" was particularly highlighted.

Essentially the following questions should be answered:

- What do family businesses see as the greatest risks and challenges within the company?
- To what extent do family businesses consider the human factor a challenge and obstacle in the defense against cyber risks?
- Which protective measures against cyber-attacks exist in the company that minimize the damage potential of human weaknesses?

- How are corresponding employees in different areas of information security sensitized?
- Which trainings and further educational courses on cyber security are offered in family businesses?

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CONFERENCE FORUM DISCUSSION

Dmitriy Govorun: Thanks for sharing your ideas with us. I would like to ask you about your expectations of the outcome "human risks versus technical risks" in terms of the effect on the family business? Have you developed the hypothesis?

Vanessa Frank: Thank you for your message. A deficient knowledge and security awareness of employees is a weakness and thus a security gap for companies. The human factor is in the companies often seen as the biggest problem in overcoming cyber risks by. For companies, it is important to raise the awareness of the employees. An expansion of the training measures should be considered. Know-how gaps of employees can be closed by targeted measures. We found significant differences between families and non-family businesses with regard to further training measures. Family businesses offer significantly more training programs. A human risk factor is recognized as particularly important in family businesses. Further research is necessary.

Alex Kostyuk: Hello Vanessa, your comment above is very interesting. You stated above that you found significant differences between families and non-family businesses with regard to further training measures. This is one more contribution to the debate if family firms should be governed further in a more specific way. But what is your point of view about the reasons for such differences in the training measures in family and non-family firms?

Khaled Otman: Dear Alex, I think the reason for differences between family and non-family to more training is experience and education.

Alex Kostyuk: Probably, you are right, Khaled. Do not you think that the attitude of family owners is specific to such issues as training and experience, as family owners could consider employees as members of the family (to some extent) and ready to invest in their training more?

Khaled Otman: Yes Alex, I agree with your point.

Vanessa Frank: In general, it is important for companies to ensure that sensitive data or even customer data does not become public. Since family businesses often use your family name to run the business, this would result in private damage to their reputation. Accordingly, family businesses could place more emphasis on employee training. The control aspect also plays an important role here. Family businesses are less willing to give up control. They can determine the level of knowledge by training their employees. In addition, family businesses are often medium-sized companies. Thus, the link to already existing knowledge and education of companies to the size of the company should be drawn. Another idea could be the corporate climate. Family businesses could therefore be more willing to financially support further training measures.

Alex Kostyuk: I support your point of view, Vanessa. Therefore, family firms are quite unique, and corporate governance as a system should take it into account.

Francesco Di Tommaso: Dear Alex, thank you for sharing the information. The idea of Vanessa is very interesting!

Manuela Lucchese: Dear authors, I believe that cybersecurity/cybercrime is a crucial issue to guarantee the resilience of SMEs. I agree with you that the vulnerability of human resources is the most important problem for SMEs. Thus, I wonder if you reflected on the possibility to focus your paper just on one of the two risks: human risks of IT risks. NIST implements practical cybersecurity and privacy through outreach and effective application of standards and best practices necessary for the U.S. to adopt cybersecurity capabilities. It dedicates a specific section to the knowledge and security awareness of employees. Then you could observe the particular application of this in the SMEs.

Vanessa Frank: Thanks for the very helpful comment. We will address this in follow-up studies.

CORPORATE GOVERNANCE AND STRATEGIC ALIGNMENT IN TOURISM DURING THE PANDEMIC ERA: DECISION MAKING FOR FAMILY BUSINESSES IN GREECE IN TURBULENT TIMES

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Abstract

The global business environment undergoes continuous changes with enterprises operating in a turbulent environment with many unexpected changes with unprecedented consequences to the business-as-usual practices of the past. Anticipating and analysing the multifaceted concept of risk seems a challenge with the top management of companies realizing not only the difficulty in concluding to future strategic decisions but also in safeguarding the viability of the entire business. Especially in 2020, an additional source of uncertainty was spread in the global economy and its effects are depicted to the everyday decision making of organisations and individual customers around the world; namely, pandemic.

None of the business sectors remained unaffected to a greater or lesser extent by the spread of the virus. Amongst the ones that have been severely impacted by the spread of the disease of COVID-19 is tourism. Considering that the latter is responsible for drifting performance ratios in global markets and economies, including both macro- and micro-economic factors, we realize the importance and necessity to

explore the direct and indirect effects of the pandemic to the particular sector during an unprecedented turmoil. Especially in countries where tourism plays a pivotal role to the economic development with its significant contribution not only to the gross domestic product (GDP) but also in the performance of other variables such as employment, the necessity to explore strategic decisions for organisations in the tourism sector to adapt to present conditions and plan for a future full of uncertainties seems undoubtedly of pivotal importance.

Occupancy in the tourism sector has achieved historic low levels on a global scale for the year 2020. Customers, travelers, and visitors feel anxiety against this unknown threat for their health expressing their reluctance to organize trips either within the boundaries of a country or even travel abroad. The use of modern technologies has facilitated the arrangement of teleconferences via the Internet leading to the demand for business trips to a halt for 2020. Hence, the above situations require the need to identify a viable strategy as a way forward for the whole tourism sector and the relevant companies.

Under such circumstances, the aim of this study is to explore the relationship between corporate governance variables and strategic alignment during the crisis period. Focusing on the tourism sector in Greece, we consider avenues for sustainability and growth especially as a society and consuming habits change while the whole country experiences the negative impacts of the global pandemic situation. The research considers the impact on various types of accommodation services exploring the implications of seasonal residences versus accommodation services offered throughout the year. Our analysis considers the wider business and economic environment, in which tourism organisations operate exploring interrelationships among them.

In methodological terms, we combine quantitative with qualitative data referring to the family business accommodation companies aiming to understand the importance of corporate governance variables to strategic success. Focusing on the Greek tourism market, the interest is on small-sized, family-owned hotels, and boutique hotels. Focusing on the impact of a pandemic, we identify the need to adjust to new conditions when evaluating alternative strategic decisions resulting from changes in consuming habits.

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CONFERENCE FORUM DISCUSSION

Alex Kostyuk: Dear Vassiliki, Panagiotis, and Dimitrios, I found your paper very relevant and important for both theory and practice. Could you disclose your research methodology in a few details (dataset, research instruments, etc.)? What corporate governance variable did you use in this research?

Vassiliki Balla: Dear Alex, the paper is in a work in progress mode, so still we are working on the data. The database we use is Passport and Trading Economics. This research area has a lot of interest because a lot of managerial and strategical issues arise, especially for Greece which is a small country and tourism is the heavy industry for it.

Panagiotis Ballas: Thank you Alex for your kind words. We believe we will end up with interesting insights regarding family firms in the tourism sector in Greece, which represent a significant amount of hotel businesses. We also aim to shed light on the impact of corporate governance variables in the burst of the pandemic to the going concern and successful application of strategy in these firms in Greece. In terms of data on corporate governance, we find the Hellenic Observatory of corporate governance as a valuable source of relevant data for a particular country.

Mythili Kolluru: Dear Dr. Vassiliki and Panagiotis, it is an interesting paper. I wanted to understand alignment with strategy. Are you referring to the corporate strategy of the company or strategic planning in particular? Can you elaborate?

Panagiotis Ballas: Dear Mythili, we explore how corporate governance variables influence the success of corporate strategy... your idea would be very interesting though as a way forward to explore strategic planning by enriching methodology with qualitative data too.

Mythili Kolluru: Dear Panagiotis, as you studied the tourism sector in Greece what kind of corporate strategies have companies adopted in this pandemic? Are they mostly adopting stability and retrenchment or not?

Panagiotis Ballas: Dear Mythili, since our focus is on small, family-owned businesses, they were mystified by the whole situation in Greece. The next step with the prohibition on travelling not only from abroad but also within the country posed major obstacles to the fulfillment of strategic objectives. Lockdowns and generally the sense of risk negatively affected the propensity of potential travelers to move. On top of it, business trips were eliminated too. Under such circumstances, small family business entities depend on support from the state to remain in business for 2020. So, retrenchment strategies are the most common among entities of the particular sector.

Vassiliki Balla: Dear Mythili, the current results show that Greek tourist-related companies from 2005 until the pandemic present a substantial performance. More interestingly, the efficiency of

management can be highlighted. Only through 2008-2010 (credit crisis period) the results worsen but then again the variables seem to increase again very fast.

Hadfi Bilel: I congratulate the authors for the choice of its subject which is very interesting either from a context point of view (Greece) or the field (tourism). The authors have concentrated on two econometric methods, on the one hand, qualitative and on the other hand quantitative; it is good to diversify the methods. But, I would like to know the sample to use in their questionnaire on the one hand, on the other hand, know the econometric model to use in their estimation.

Alex Kostyuk: I see your vision of further research, Vassiliki. Managerial issues (better said, corporate governance) are very important for Greece as the tourism industry attracts a lot of investments and has an opportunity to attract even more. In this context, corporate governance would be an excellent instrument this way.

Alex Kostyuk: You are absolutely right, Panagiotis. If you mix family firm corporate governance with a specific of the tourism industry, in Greece in particular, then it will be a very interesting field of research, contributing both to the practice and research literature. Family firm researchers would appreciate it for sure.

Khaled Otman: Dear Panagiotis, it is a good idea if you use control variables such as size firm, age firm, and leverage. My question, how you will measure strategic alignment?

Panagiotis Ballas: Dear Khaled, we really appreciate your comment on control variables! We also take into account qualitative dimensions (seasonality, type of visitors) particularly relevant to small family hotels located for example on Greek islands. In terms of strategic alignment in the pandemic period, we approach the topic through the flexibility of staff (working flexible hours/days), the flexibility of the entity to shift target market (i.e., from tourists travelling for recreation purposes to business travelers), and organizational capabilities (level of dynamism in these difficult times).

Dmitriy Govorun: Dear Panagiotis, thank you very much for sharing the ideas on the topic and for sharing the information regarding strategies of entities in tourism. Of course, small family businesses quite dependent on support from the state. We may also see a very similar situation in other countries. I was also wondering whether the external environment regarding corporate governance has changed in Greece due to the pandemic or has stayed the same?

INFORMATION POLICY OF FAMILY FIRMS LISTED ON THE WARSAW STOCK EXCHANGE. THE CASE OF STOCK EXCHANGE RELEASES RELATED TO THE COVID EPIDEMIC

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Abstract

This paper provides an analysis of reports published by family and non-family firms in the period of increased communication activities caused by the outbreak of the SARS CoV-2 pandemic show an existing, albeit small, diversity of information activity of both populations. Authors provide also analysis of stewardship theory and agency theory in relation to family firms. Consequently, the reaserch cannot verify with utmost certainty the hypothesis that family firms have a different information policy, at least in the aspect of reporting activities of public family firms.

1. INTRODUCTION

Information disclosed by companies is an important element influencing decisions made by investors on all markets. Analyses, recommendations, and forecasts are based mainly on information provided by companies in annual reports and stock and press releases. This information is essential for making the right investment decisions and, as research shows, disclosure practices of companies have an increasing impact on

capital markets (Botosan & Plumlee, 2002; Easley & O'Hara, 2004; Leuz & Verrecchia, 2000). The information policy is also one of the fundaments of contemporary corporate governance.

The quality of the information provided by companies may vary depending on many factors. According to research, one of them is the ownership structure. According to researchers, a significant share of the family members in the ownership structure of a company can have an impact on how the company operates, including its disclosure practices. This impact, depending on the research, is explained by stewardship theory or agency theory.

This article focuses on the differences in reporting on the impact of the COVID-19 pandemic on the operation of family and non-family firms.

2. STEWARDSHIP THEORY AND AGENCY THEORY IN RELATION TO FAMILY FIRMS

There are non-economic factors such as emotional attachment in family firms that do not exist in non-family firms (Klein, Astrachan, & Smyrnios, 2005; Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2010). Given such emotions as the loyalty, care, and pride of family owners, some researchers believe that the stewardship theory is the right theory to consider differences between family and non-family firms. The creation of a corporate culture characterised by collectivism, characteristic of the stewardship theory, is combined in family firms with the aspect of building strong, long-term relationships with external stakeholders (Miller, Le Breton-Miller, & Scholnick, 2008). However, not all family firms operate in this way, and the situational and psychological factors affecting the company and its members are not necessarily consistent with the stewardship theory. Therefore, agency behaviour may still exist in family firms, and some studies indicate that agency theory also applies to research on family firms (Davis, Schoorman, & Donaldson, 1997).

Both the stewardship theory and agency theory can be used to consider the disclosure of information by firms. Prencipe, Bar-Yosef, and Dekker (2014) suggest that family firms can be better understood using a combination of these two theories.

3. STUDY

Based on the differences between family and non-family firms, resulting from both stewardship and agency theories, it must be assumed that disclosure practices vary according to the ownership structure. However, previous studies in this area have produced contradictory results in terms of the quality of reporting by family firms. Some researchers found that family firms provide better accounting information than non-family

firms, but other studies indicate a negative relationship between family control and the quality of company reporting by the firm.

4. DATABASE

The selection of the companies for the study began with shortlisting of the companies that were listed on the main floor of the Warsaw Stock Exchange as of 31 March 2020 (excluding: companies representing the financial sector, companies with State Treasury shareholders, companies with free float higher than 66,6%). The analysis covered 350 companies, from which companies considered as family-owned were selected. A multi-factorial definition of a family firm was applied, taking into account both ownership and management characteristics, as well as context analysis, verifying the company's self-identification as a family firm. For the purposes of further research, companies were selected and considered family firms in which:

- 1) at least one person from the family or the whole family holds at least 33% of votes in the company;
- 2) at least one person from the family sits on the company's management or supervisory board;
- 3) the company has the characteristics of a family firm.

Data on the shareholding structure and members of management and supervisory boards of the companies were collected on 31 January 2020 from the Notoria database. In order to verify whether the company meets the third criterion of the definition, i.e., whether it has the characteristics of a family firm, an analysis of publicly available Internet sources was used to determine whether the company presents itself as a family firm or is perceived as such by other companies (e.g., awards granted, plebiscites, presentations at conferences).

Using this definition of a family firm, 83 companies were selected from among 350 companies that met the criteria. Out of the remaining companies, 233 companies were selected which were classified as non-family firms. In the case of 34 records, the characteristics of the companies did not allow for objective classification as a family or non-family firms – these companies were excluded from the study.

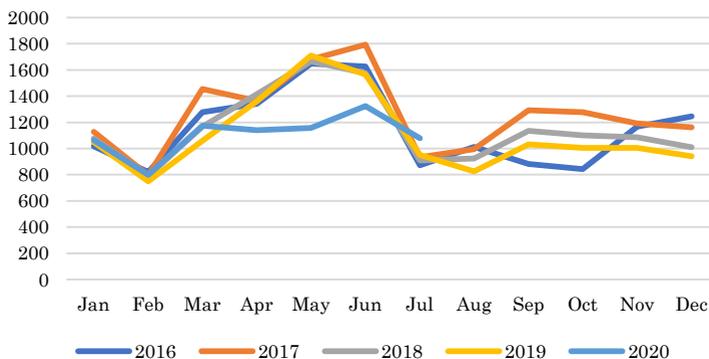
The analysis also used 73,333 ESPI reports, which were published by the selected companies in the period from 1 January 2016 to 31 July 2020. 191 reports were selected provided that the name (title) of the report contained any of these expressions: "virus", "covid", "sars", "cov-2", "epidemic", "pandemic", "coronavirus". These reports are marked as being linked to the SARS-CoV2 coronavirus pandemic¹.

¹ When analyzing the above data, it should be remembered that the Polish Financial Supervision Authority, when issuing the Supervisory Incentive Package for Security and Development (PIN) on 30 March 2020 in connection with the SARS COV-2 epidemic allowed public companies listed on the Warsaw Stock Exchange to postpone the date of issuing periodic reports by 2 months in relation to the associated customary regulations. Therefore, it should be remembered that the absolute number of reports presented in this study may depend on

5. RESULTS

First, it was decided to examine the overall market activity in terms of communication with investors. The number of reports published by all the companies analysed in each year was used as a measure.

Figure 1. Number of ESPI reports published by the companies under analysis in the period from 1 January 2016 to 31 July 2020



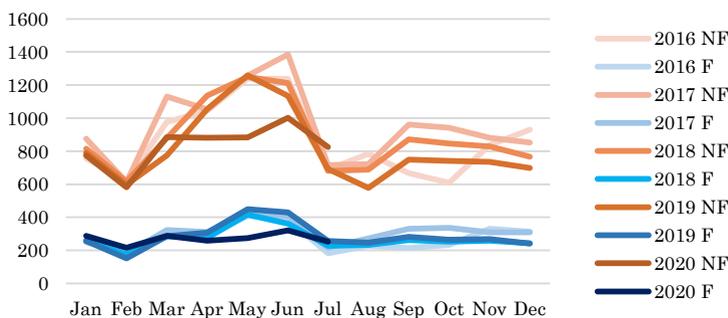
Source: Authors.

The analysis of Figure 1 shows the highest activity of companies in the second quarter of the year, which is a recurring trend in 2016-2019. This is probably due to the highest reporting obligations imposed on companies in this period and lower economic activity in the holiday months (July and August); consequently, companies are usually more active in the pre-vacation period so that they can carry out all planned activities before this period – hence the increased activity in May and June. In the second quarter of 2016-2019, 33.5% of all reports in these years were published. During the holiday period, there is a fairly large decrease in the reporting activity of companies, which increases in the following months of the year and remains relatively stable in January of the following year. In each of the years analyzed, it can be seen that February is the month where the least ESPI reports are published – this may be due to the fact that it is the period following January when companies announce their plans to publish their financial statements, and even before March and April when companies start to present preliminary results for the first quarter. Moreover, this is

the occurrence of the postponement. Due to the amount of data analyzed, the imprecise nomenclature of ESPI reports published by companies, the authors were not able to exclude ESPI reports concerning the publication of periodic reports from the study.

the shortest month of the year, which may also be relevant in this case. In the case of 2020, it is clear that between March and June companies have published significantly fewer current reports. In some months, the decrease is as high as 35%. This decrease may be largely due to the postponement by two months of the obligation to publish the results of listed companies, as decided by the Financial Supervision Authority and the Warsaw Stock Exchange.

Figure 2. Number of ESPI reports published by the companies under analysis in the period from 1 January 2016 to 31 July 2020, by family (F) and non-family firms (NF)

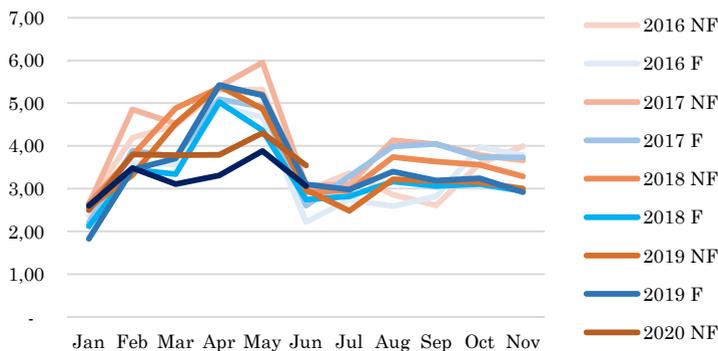


Source: Authors.

The analysis of the above figure shows that both family and non-family firms are characterised by similar seasonality. In 2016-2019 both types of companies were also characterised by a similar diversity of monthly reports. The analysis of the total number of reports in a given month in 2016-2019 reveals the respective coefficient of variation of 22.75% and 22.69% in the case of both family and non-family firms – thus it can be concluded that this difference is insignificant. The decrease in information activity in Q2 2020 is similarly visible for both family and non-family firms.

However, in order to assess the information activity of both types of companies, it is necessary to determine the average number of reports per a company per month. Figure 3 presents the average monthly number of reports published by family and non-family firms.

Figure 3. Number of ESPI reports published by the companies under analysis in the period from 1 January 2016 to 31 July 2020, divided into family (F) and non-family firms (NF)



Source: Authors.

The analysis of the above figure shows that family firms are characterised by similar average monthly reporting levels. However, in the case of family firms, the number of reports is slightly lower and on average it was 3.45 in 2016-2019 (3.77 for non-family firms).

6. CONCLUSION

An analysis of reports published by family and non-family firms in the period of increased communication activities caused by the outbreak of the SARS CoV-2 pandemic show an existing, albeit small, diversity of information activity of both populations. Consequently, one cannot verify with utmost certainty the hypothesis that family firms have a different information policy, at least in the aspect of reporting activities of public family firms. The reason for the above may result, among other things, from the following:

- unified reporting obligations and rules resulting from applicable legal regulations and corporate governance rules for public companies that eliminate structural differences in the approach to reporting (including non-financial reporting);
- professionalization of family firms listed on the public market and related higher than average information activity;
- influence of non-family investors and board members on reporting principles.

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CONFERENCE FORUM DISCUSSION

Alex Kostyuk: Dear Maciej and colleagues, you have explored a highly-demanded issue from the point of view of society – financial reporting. Certainly, it is very important to reduce uncertainty in the epoch of pandemic, and financial reporting, for sure, is one of the instruments. At the same time, I would appreciate if you explain your motivation to study this issue in the context of the ownership type? Do you suppose that various groups (types) of shareholders have various attitudes to the issue above in the time of pandemic?

Mateusz Mikutowski: Dear Alex, we are interested in the family business, because they are part of economics, which in a lot of countries is responsible for most of value-creating in the economy, but researchers do not analyze them or analyze not to depart from other types of companies. A lot of researchers found that family businesses appear to be different in various ways (approach to risk, investment horizon, or even

transparency). In the past, we were trying to investigate the otherness of family firms in different areas (e.g., M&A activity, financing structure). Nowadays, when we have pandemic times, we tried to verify that "otherness" in the next possible place – the company-investors relationship.

Alex Kostyuk: Hi Mateusz, I found your comment above certainly interesting. The time of pandemic is a great temptation for governments to support just large companies (as a rule they are not family-owned). So, the family business should care about themselves alone to some extent. What do you think about Poland in this context? Is governmental support of family business in the time of pandemic enough for the sustainability of the family business?

Mateusz Mikutowski: Dear Alex, I think that it really depends on the business type. In Poland, we have quite big corporations, which do not cope with pandemic and also, on the other hand, small companies, which were flexible enough to change their business model fast enough to play well in the pandemic times. About governmental support, I think it is too soon to decide - since now, we do not have a very bad situation in the economy in a broad view, but 2021 will be challenging and verify the effectiveness of support. At that moment, I can say that that support, at the first glance, looks quite uneven. There are branches, which need more help and do not get it, and there are businesses that are ok and get a lot of support.

Alex Kostyuk: Thank you, Mateusz. So, the role of the state can be analyzed correctly in 2021. When you mentioned relationships between investors and companies in the pandemic time do you mean investors-resident or non-residents? It seems that the stock market is very sensitive to any events and foreign investors too.

Mateusz Mikutowski: Yes, I agree. Polish stock market is very sensitive to the behaviour of non-resident investors, but in the case of our study, we think more about minority shareholders it was not so important for us if the investor is resident or non-resident. Majority shareholders very often have other sources of information besides public reports, so they are not taking investment decisions in view of that reports very often, on the other hand, for minority shareholders it is very often the only way to get information about the company, so this is the group which could be more influenced by reports we studied.

Alex Kostyuk: That is excellent! So, you focus on the minority shareholders and access to the information during the pandemic. This is fundamental research about the minority shareholders' decision-making under the asymmetry of information empowered by unexpected events (like the pandemic).

Iliana Haro: Hi Mateusz, I liked your paper very much I agree with Alex that during these challenging times of COVID-19 reporting and release of information has become crucial, not only from the financial point of view but also from the corporate social responsibility perspective,

particularly when dealing with health risks. Now, I have a question, are you considering to analyze family firms in terms of their national corporate culture? For example, UK SMEs and German Mittelstands exhibit very particular behaviors in terms of management and of course release of information. Do you think that that would be relevant?

Mateusz Mikutowski: Dear Iliana, surely, I think this could be very important to analyze also foreign companies. The problem with analyzing SME (also polish) is access to information. We analyzed family companies, which are listed on the Polish Stock Exchange (they constitute about 1/4 of all listed companies). I am almost sure that comparing smaller, private companies with listed corporations could bring us to more clear and more interesting results, but there is a problem with measuring communication level in smaller companies, which do not have obligation to share any information in public (besides some financials and basic level information about the type of business, address, and shareholders).

Iliana Haro: I understand your point of view, Mateusz. I was asking this because most of the time when we refer to family firms they are not public, they may be reporting to the stock exchange but because they have a different kind of debt vehicles that require that kind of compliance. On other hand, Mittelstands are not necessarily small companies indeed, Bosh, Duravit, Miele are some examples of them. Could you be so kind to explain your concept of family firms, please?

Mateusz Mikutowski: Dear Illiana, the definition of family firms is a very complicated topic and a lot of researchers define it in a different way. We think that being public does not mean automatically that it can't be a family firm. In our studies we use probably the most popular definition of the family business:

1. Family member or members have min. 33% of shares.
2. One or more family members have to be on the Board of Directors or in other "top management position".
3. The company has family "birthmarks".

The last one is quite subjective but crucial. We define birthmarks as some kind of identity of being "family". We think it is fulfilled when companies call themselves "family", takes a part in various rankings, conferences, etc. for family businesses or owners on interviews or on the website or other sources relates to family values. As I said, it is subjective but crucial to filter out the companies which are just managed by owners but it has no "family" inside.

Iliana Haro: Thanks Mateusz, I understand and I like the comparison that you present in your paper "The supporters of the essential approach argue that even if two companies have the same degree of involvement, measured by the fraction of ownership, the effects of such a composition may be different in family firms and non-family firms. We may assume that attitude towards the company and the emotional linkage between the family members and the entity seem

to be crucial in determining the real character of the firm". Now the question is how are you going to measure attitudes and emotional linkages?

Mateusz Mikutowski: Because of the essence of the problem it is quite hard to measure, we tried historically to do it by Natural Language Processing method, but it did not get us good results. Now, we try to find any evidence to show any emotional linkages and then we classify such a company as a family business.

Iliana Haro: I think here the challenge will be to define what an emotional link is, would you agree?

Mateusz Mikutowski: I agree with 100.0%. That's why in every of our study there are always some companies which we do not include in our study, where we cannot decide with a big degree of confidence that one is a family or non-family company.

Iliana Haro: This is a great statement Mateusz! I found sort of arrogant to believe that for all of our studies we can guarantee with 100% confidence that we are right, good luck with your research.

Ilaria Galavotti: Dear Mateusz and colleagues, I enjoyed your research focus a lot and I would have a question regarding the interpretation of your results. In those cases where you identify a difference in the reporting activity by family compared to non-family firms, did you maybe control for additional factors that may potentially have an influence? For example, as you compare your results with the companies' average reporting activity in 2016-2019, do you think that it could be interesting also to consider the industry averages during the COVID-19 period?

Mateusz Mikutowski: Of course, we fully agree that other factors could influence the results, but we did not invent a method to filter them out among several dozen of thousands of reports. Industry average sounds promising.

Ilaria Galavotti: Thank you very much for your reply. In terms of implications, do you think that there may be different effects on business continuity between family vs non-family firms?

Mateusz Mikutowski: Family businesses are known as more conservative in view of financing structure and risk-taking. In theory, that means that they can be stronger against cashflow problems. So, in theory, they should cope with crisis better than non-family businesses. In the future, we should investigate if the market agrees with the theory.

SESSION 3: FINANCIAL ISSUES OF CORPORATE GOVERNANCE**CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE DURING COVID-19 PANDEMIC IN SAUDI ARABIA****Ghada Gaballa^{*}, Bahaeldin Samir Allam^{*}, Mohamed Antar^{*}**

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Abstract

This research proposes to examine empirically the fineness of corporate governance level in firms listed in the Saudi Stock Exchange and their impact on financial performance before and during the COVID-19 pandemic period. To estimate the level of corporate governance practices at the specific firms, the existing study builds a corporate governance index that contains three dimensions which are board characteristics, ownership structure, and audit committee together with other committees in the firms. Based on a sample of 154 non-financial firms listed in the Stock Exchange of Saudi Arabia. The impact of corporate governance on financial performance is estimated, financial performance will be measured using *Tobin's Q* and *ROA*. Panel regression methods will be applied to the data set of non-financial firms over the period from 2014 to the end of 2020. The research probably of interest to those practitioners, academic researchers, and regulators who are concerned in finding out the quality of corporate governance practices in a developing country, especially during the pandemic of COVID-19, such as Saudi Arabia, and its impact on firm financial performance.

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CONFERENCE FORUM DISCUSSION

Hadfi Bilel: I commend the author for the choice of topic especially in the context of Arab countries (MENA zone) where they are characterized by a low governance index. Better governance plays a crucial role in the effectiveness of decisions and strategies of managers in companies to fight against this phenomenon of coronavirus.

Oumaima Sadqi: Do you think that both disciplinary and cognitive corporate governance mechanisms impact business performance in the MENA region, or we should only focus on the disciplinary mechanisms? I specify that the disciplinary mechanisms are those defined by the agency theory and the cognitive ones are the mechanisms proposed by the cognitive theories of the firm, namely the resources and competence-based views.

Oumaima Sadqi: I believe that future research on corporate governance should try to provide hybrid governance theories that synthesize these two approaches of governance that are more complementary than opposed (Charreaux, 2000).

Shab Hundal: Dear authors, your core research idea is very interesting. However, you may consider elaborating on why there is a need to develop a new corporate governance index when such indexes have been developed by researchers and practitioners. Thus, your starting point may be a critique of the existing corporate governance indexes. You can explore more whether the well-known indexes leave room for the local institutional settings. Another aspect is that you should justify why you only focus on three dimensions: board characteristics, ownership structure, and audit committee together with other committees in the firms.

Mireille Chidiac El Hagg: The idea is very interesting. But you need to be more explicit. I believe that your point of view is not about building an index but rather about referring to one, in order to measure the board characteristics, the ownership structure and the audit committee, and others.

Ghada Gaballa: Hi Hadfi Bilel, thanks for your kind words of encouragement. They are truly valuable to me. Indeed, when it comes to the Middle East and North African (MENA) region, Oman was the first country to introduce a code of corporate governance back in 2002. So much has happened since then. This is not to say that corporate governance never existed before that date; many company laws of the region cover board composition and responsibilities to different degrees, but not to the extent required by most regulators in the developed world. The Middle East and MENA economies have made progress in strengthening corporate governance frameworks in recent years, but that the region still faces challenges in adopting and implementing corporate governance measures that support economic efficiency, sustainable growth, and financial stability. Finally, as you say Good governance plays a critical role in the effectiveness of decisions and strategies of directors in firms to fight against this pandemic of COVID-19.

Ghada Gaballa: Hi, Oumaima Sadqi. Thank you for this excellent observation, where all CG theories such as agency theory, transactions cost economics, stewardship theory, stakeholder theory, and resource dependency theory, facilitate us to interpret the role that directors may play in achieving the performance goals of the firm that they govern (Nicholson & Kiel, 2007). These theories help us to understand the role and preferences of the different stakeholders, so I definitely agree with your point of view that the next researches on corporate governance should try to provide crossbred governance theories that synthesize these two approaches of governance that are more complementary than opposed (Charreaux, 2000).

Oumaima Sadqi: Absolutely! Thank you for this idea.

Ghada Gaballa: Why is there a need to develop a new corporate governance index when such indexes have been developed by researchers and practitioners? That is a very good question, Shab Hundal, and my answer is the following. A number of developing countries have embraced corporate governance ideals. However, developing countries practice corporate governance models that are different from the models adopted by developed countries (Rabelo & Vasconcelos, 2002). This is partly due to the unique economic and political systems found in developing countries. Mensah (2002) argues that developing countries are poorly equipped to implement the type of corporate governance found in the developed market economies because developing countries are characterized by state ownership of firms, interlocking relationships between governments and financial sectors, weak legal and judiciary systems, and limited human resource capabilities. Consequently, such indexes have been developed by researchers and practitioners in developed countries not compatible with our CG perspectives in the Middle East and MENA Region and when you say the starting point may be a critique of

the existing corporate governance indexes that are already made when we built our index from the scratch from the CG code of the country.

Ghada Gaballa: Jumping to other questions about why we only focus on three dimensions: board characteristics, ownership structure, and audit committee together with other committees in the firms. It is simply because these are all variables in the CG code that we can use to measure the level of corporate governance in the firm.

Ghada Gaballa: Hi Mireille Chidiac El Hajj, thank you for your comments and my response is “No we have not”.

Alex Kostyuk: Hello Ghada and colleagues, your research (I expect that this is a proposal you expect to follow) is very relevant from the point of view of the pandemic. I would give you a piece of advice. When composing a dataset of companies you should divide the dataset into two groups by the ownership type – state-owned and private. Recently, governments worldwide are keen on supporting state-owned companies in various ways (it looks like an economic preference). As a result, this support, but probably not corporate governance variables, can influence the performance of the state-owned companies. Therefore, these two groups of companies should be divided into two groups in your research.

Ghada Gaballa: Dear Alex Kostyuk, we found your comments extremely helpful and will take it into consideration.

Emmanuel Abolo: Great study and I agree completely with Ghada. My submission would be that the refined study should be conducted both at aggregated and disaggregated levels for comparison.

Juliet Wakaisuka: The importance of the financial system in any economy is paramount, as a healthy economy cannot be existent without a well-functioning financial system. Sub-Saharan Africa has experienced strong economic growth over the last decade though with most of the countries being hit by a number of shocks like the sharp decline in commodity prices, tighter financing conditions, severe drought in East Africa, and now the pandemic that has left many in a fix. According to the Organization for Economic Cooperation and Development (OECD) (2020), annual global GDP growth is projected to drop to 2.4% in 2020, with growth possibly even being negative in the coming quarters of the fiscal year due to the COVID-19 pandemic. In Uganda, for example, there is already been adverse effects of the COVID-19 pandemic on several sectors of the economy in particular; tourism, agriculture, manufacturing, and trade putting people’s jobs and livelihoods at risk. There are also adverse socio-economic impacts of the COVID-19 pandemic on the health and livelihoods of families and communities, in particular the most vulnerable groups (women and youth) which are regressing progress across the Sustainable Development Goals (SDGs). To that effect, there is a need for the immediate attention of nations to strengthen corporate governance since it is seen to create a steadiness between economic, social, individual, and communal goals while

encouraging the efficient use of resources, accountability, and the use of power and stewardship and at the same time, aligning the interests of individuals, corporations and society.

Stergios Tasios: Dear authors, I find your research topic challenging. Could you please provide more information on the items of the corporate governance index? How will you calculate the score? I suggest considering also ROE and profit margin as measures of financial performance.

Ghada Gaballa: Hello Stergios Tasios, thank you for your questions and my answer to the first question is the items of the corporate governance index we have three main variables you can call it dimensions. First is board characteristics which contains five sub-variables: board size, role duality, gender diversity, board independence, board meeting number. The second dimension is the audit committee which contains four sub-variables: audit committee number, audit in-dependency, audit type, audit meeting numbers. The third dimension is Ownership Structure which contains three sub-variables: managerial ownership, institutional ownership, blockholding ownership.

Ghada Gaballa: Switch to the next question my answer is the unweighted corporate government index will be used; each of the index questions earns a score of "1" if the answer is "yes" and "0" otherwise.

NEW VENTURES CAPITAL STRUCTURE AND FINANCIAL CRISIS

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Abstract

Most of the studies carried out on the determinants of financial decisions and capital structure focus mainly on large listed firms (e.g., Rajan & Zingales, 1995; Harrison & Widjaja, 2014) or on small and medium-sized enterprises (SMEs) (e.g., Michaelas, Chittenden, & Poutziouris, 1999; Sogorb-Mira, 2005). In addition, the studies usually do not consider the financial context that may affect and condition access to finance decisions. One type of event that undoubtedly affects access to finance is a financial crisis, such as the one that began in late 2007 in the US (Campello, Graham, & Harvey, 2010). During this crisis, access to credit was very limited (ECB, 2013; Carbo-Valverde, Rodriguez-Fernandez, & Udell, 2016), and the cost of such financing increased sharply (Santos, 2011). The difficulties were more accentuated for smaller and younger firms (Cowling, Liu, & Ledger, 2012), which led to a decrease in the debt levels of SMEs during the crisis (Proença, Laureano, & Laureano, 2014). Additionally, firms also experienced constraints and difficulties, such as a decrease in both revenue and growth opportunities. Such uncertainty affected cash flows and, consequently, impacted the capital structure (D'Amato, 2020).

As such, in the aftermath of the last economic recession, firms were forced to look for different ways to finance themselves to be able to respond to and overcome the crisis. The present study aims to fill this gap and investigates how an event such as the financial crisis affected the capital structure of Portuguese new ventures.

Drawing on a panel of 75,826 Portuguese new ventures (241,284 venture-year observations), the results show that the capital structure of new ventures responds to economic downturns, having higher values of debt ratios for both total and short-term debt, higher

profitability, higher growth, and lower tangibility. Furthermore, ventures that are financed mainly with equity resort to less short-term debt and have higher profitability and liquidity but experience lower growth.

This study reinforces previous works about the capital structure, thus contributing to the literature. It also informs managers, practitioners, and policymakers that the capital structure of new ventures is responsive to an economic downturn and has implications for the establishment of ventures during recessionary periods.

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CONFERENCE FORUM DISCUSSION

Dmitriy Govorun: I would like to thank you for your abstract regarding capital structure and the financial crisis. I support your idea that after the last recession firms were really forced to find new ways how to respond to the upcoming crisis. You have studied a panel of 75,826 Portuguese new ventures. May we ask you to share more details about the research period – what was the period of the research? Have you noticed the difference in ownership type and/or available governance mechanisms of those ventures that are financed mainly with equity and those financed mainly with debt? The next question is about your statement “It also informs managers, practitioners, and policymakers that the capital structure of new ventures is responsive to an economic downturn and has implications for the establishment of ventures during recessionary periods”. It is obvious that the current recession seems to have a bit different nature. What are your thoughts about possible solutions for Portuguese ventures in terms of capital structure? Thanks in advance.

Maria Guedes: We use panel data on the capital structure of Portuguese new ventures founded between 2006 and 2015 and followed until 2017, so, we analyzed ventures founded before and after the crisis. Based on casewise deletion, the final sample consists of 241,284 venture-year observations, representing a total of 75,826 new ventures established between 2006 and 2015 and followed until 2017. From these, 108,549 venture observations, representing a total of 24,750 new ventures, were established before the crisis, and 132,735 venture-year observations, representing a total of 51,076 new ventures, were established during the crisis. We inform that ventures established in crisis were more profitable, for example. That suggests a selection process and that can inform that companies that are not viable shall consider all possible alternatives to debt (debt and more debt is not the way).

STOCK MARKET REACTIONS TO FAKE NEWS

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Abstract

Today information plays a central role in society, and the damage caused by disinformation can be enormous. This can be illustrated by a recent example in Italy. On the 8th March 2020, news of a possible lockdown in the Region of Lombardy, in the north of the country, in order to contain the COVID-19 epidemic, was leaked before it was officially announced by the Government. On hearing the unofficial news, many people left Lombardy for their home towns in the south of Italy, making the government measures much less effective. In order to avoid further spread of the virus, the government was in fact forced to lock down the entire nation. This shows in a simple and topical way how big the impact of information on society can be. Since the US presidential elections and the Brexit referendum of 2016, information has in fact played a major role in every aspect of daily life, from politics to economics (Allcott & Gentzkow, 2017). The Internet has seen recent mushrooming of organizations and individuals deliberately spreading false information to seek political (Bradshaw & Howard, 2018) or financial gain (Subramanian, 2017). This is commonly referred to as "fake news", and it usually spreads through social media platforms. The World Health Organization (WHO) uses the term infodemic to describe the over-abundance of information which makes it hard for people to find trustworthy sources and reliable guidance when they need it (WHO, 2020). When the fake news phenomenon moves from social media to the business and financial world, things become perhaps even more serious (Knight & Tsoukas, 2019), because one simple item of fake news can burn billions of dollars in a matter of seconds (Karppi & Crawford, 2016).

Information is particularly crucial for financial agents. The efficient market hypothesis (EMH), which states that financial markets react to all information, was developed by Fama (Fama, 1970) on this basis (Dimson & Mussavian, 1998). As described by Karppi and Crawford (2016), in 2013, fake news of two explosions at the White House caused the S&P500 index to lose more than \$130 billion in market capitalisation. However, despite the huge impact that fake news can have, very few studies (e.g., Clarke, Chen, Du, & Hu, 2020; Kogan, Moskowitz, & Niessner, 2019; Ullah, Massoud, & Scholnick, 2014) have been made on the topic to date. Most of these studies focus on the detection of fake news rather than on its financial effects. To our knowledge, only Ullah et al. (2014) investigate whether and how much fake news can impact stock returns. In the age of “fake news” and “alternative facts”, and the huge economic effects they can trigger (Lautenschläger, 2018), Central Banks have also started to voice concern, but many questions are still open. One of the key questions for research is the following: how do fake news affect stock returns? Since there is a dearth of evidence on many aspects and little understanding of the real impact of fake news, we try to look beyond the measurement of the impact of fake news and assess the role of various determinants. On the basis of a sample of fake news items announced between 2007 and 2019, in both Europe and the US, we assess the impact of false information on stock markets by using two different empirical methods. First, we run an event study to assess the impact of a false news item on stock returns, as is usual in economic literature (Ahern, 2009; Ullah et al., 2014). Second, we run a multivariate OLS regression on cumulative abnormal returns (CARs) in order to control for other determinants of the same returns (MacKinlay, 1997).

We find that, in general, stock markets react to false information, at least in the short term, and that the reaction is consistent with the tone of the news (i.e., whether fake news is positive, negative, or neutral). In other words, false negative information causes a negative response, while false positive information causes a positive response. We find no significant difference in reactions between European and US stock exchanges, although the event study suggests that Nasdaq might be slightly more efficient than NYSE and European markets. We find that a bigger size helps companies to tackle the impact of false negative information spread through financial markets: this could be explained by the fact that, for large companies, one piece of false information is often surrounded by large amounts of genuine information so that the impact is diluted. We find that manufacturing and financial companies are more heavily penalized by investors when fake news appears. For the financial industry, this implies that the scars from the 2008 crisis are not completely healed and there is still a great deal to do in restoring trust in banks and insurance companies.

This study shows some innovative features. It is one of the few to consider large-cap non-US companies. Specifically, we focus on listed companies, both in the US and in Europe, which were subject to fake news between 2007 and 2019, a period longer than ten years. To our knowledge, our analysis is the first to address specifically fake news on European markets; to make a comparison between positive, negative, and neutral information and to make a distinction between Nasdaq and NYSE Stock Exchanges.

However, our study is not free from shortcomings: many subsamples were much too small for results to be generalized; comparison with a sample of genuine items of news would make clearer the effects of information which is fake. Taking account of these limitations, further analyses should consider larger samples of European fake news items as well as larger samples of positive and neutral fake news. Banks and insurance companies are, in fact, more vulnerable to operational and reputational risks, and given that our sample contains a small number of financial firms, it would also be interesting to focus on the financial industry in future research. This study however takes an additional step towards understanding the implications of fake news for society and for financial markets especially. Fake news is becoming increasingly widespread and is increasingly impacting firms as part of the broader concept of operational risk. Investors need to be aware of this in making business and investment decisions, and effective countermeasures need to be set up. Information technology (IT) and information management solutions can help to tackle the problem and it is hoped that one day they will become more effective in identifying and eliminating fake news.

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CONFERENCE FORUM DISCUSSION

Nadisah Zakaria: It is a well-written paper indeed. Indeed, I agree with your findings and conclusions.

Hadfi Bilel: I commend the author for the choice of topic. Further, they try to know the importance of new information on the behavior of investors in the financial market. In fact, information plays a crucial role in the behavior of investors trying to profit or otherwise an abnormal return following their transaction carried out in the financial market. The false information can influence its behavior followed by bad results and depreciation of prices in the market. I suggest you introduce the phenomenon of COVID-19 in this article or in these future works to know its influence on the returns on the market.

Maria Cristina Arcuri: Thank you for your comments and your suggestions. I agree with prof. Bilel, one of the next steps will be the analysis of the impact of COVID-19 fake news on financial markets.

Tariq Ismail: I do like the idea of the paper where it aims at testing the effect of fake news on stock prices in the US and Europe. I hope that you consider some issues related to the statistical analysis; where it is very crucial and add more reliability and explanatory power to the results. The two issues that you should consider are: 1) cross-sectional differences among sample firms that can result in biased coefficient estimates, and 2) heteroscedastic regression errors that can cause biased standard error estimates and estimation inefficient.

Emmanuel Abolo: It would really be an interesting research to build into the study of the impact of fake news on stock prices. That would open the floodgate for studies leveraging your methodology to examine the impact of fake news on other markets, especially during NCOVID-19. I look forward to the study. Wish you well.

Maria Cristina Arcuri: Thanks for your suggestions. We intend to analyze the impact of fake news about COVID on stock markets.

Stergios Tasios: Are these fake news company related? Could they possibly relate to market manipulation of the shares?

Alex Kostyuk: Hello Maria Cristina and colleagues, it seems that the pandemic is an excellent time to get inside of studies related to fakes news and its impact on the stock market. I think that it would be very useful to study also how the stock market responds to the news that announces that certain news that happened in the past was fake. Can we expect the reverse effect of “detection” of the fake news by the stock market? Finally, we can expect that markets aspire to be efficient (and the above, reverse trend as for the news, can be a feature of this aspiration).

Maria Cristina Arcuri: Following the EMH, financial markets react to fake news. It is important to understand how they react and pay attention to potential negative consequences in terms of economic and financial losses but also reputational damages.

Alex Kostyuk: I agree with you, Maria Cristina, about the importance to investigate negative consequences related to economic and financial losses, and also reputational damages, as you mentioned.

FINANCIAL AND NON-FINANCIAL WEB-BASED CORPORATE DISCLOSURES DURING THE COVID-19 PANDEMIC

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Abstract

The COVID-19 pandemic is a multidimensional crisis and, probably, the most significant challenge for humanity since the devastating World War II. Many countries, in order to restrain the spread of the virus, proceeded to restrictive measures, social distancing, and ultimately quarantine which affected socioeconomic life and the business environment. In this volatile and complex context, corporate disclosures are vital in order to ensure transparency and stability in the financial markets and sustainable growth for the enterprises.

Disclosures constitute the main means of communication between management, investors, and markets, in general, and they are provided by several means that include annual reports, conference calls, investor relations, interim reports, and company websites (Hassan & Marston, 2010). The need for corporate disclosures stems from information asymmetry and agency problems between management and investors (Healy & Palepu, 2001). In this context, several theories have been proposed to interpret corporate disclosures which include cost, legitimacy, efficient markets, agency, and signaling theories.

The origins of political cost theory (or theory of positive accounting) are attributed to Watts and Zimmerman (1978, 1979) and their book *"Positive accounting theory"* (1986). According to the theory of political cost, it can be argued that companies voluntarily disclose information

in order to minimize political intervention (Mallin & Ow-Yong, 2012). Corporate disclosures can also be interpreted by the need of companies to raise capital at a lower cost, as additional disclosures may attract new shareholders and support demand and the price of shares (Cooke, 1989).

Legitimacy theory is defined as “a generalized perception or assumption that the actions of an entity are desirable, proper and appropriate within some socially structured system of norms, values, beliefs, and definitions” (Suchman, 1995, p. 574). According to legitimacy theory, organizations seek to ensure that they operate within social boundaries and, therefore, disclosures are a significant channel for companies to communicate the legitimacy and appropriateness of their actions.

The efficient market hypothesis argues that market prices fully reflect all available information; it was originally proposed by Samuelson in 1965 (Lo, 2007). Healy and Palepu (2001) argue that information asymmetry and agency conflicts between managers increase the demand for financial disclosures. The problem of asymmetric information can be solved by optimal contracts between entrepreneurs and investors, by regulation that requires managers to fully disclose all their private information, and by the obligation of financial analysts and rating agencies to uncover management’s inside information (Healy & Palepu, 2001).

The agency problem is associated with the separation of ownership and control in diffused ownership corporations (Jensen & Meckling, 1976). In firms with diffused ownership the agent may have access to inside information, which, considering the monitoring difficulties, he may use for his own benefit (Cooke, 1989). In this case, accounting information is a mechanism for the resolution of conflicts between the related parties; e.g., between shareholders, between shareholders and bondholders, even between the corporation and society (Gray, Meek, & Roberts, 1995).

Signaling theory can also be useful in describing behavior in which parties have access to different information (Connelly, Certo, Ireland, & Reutzel, 2011). According to Smith (2003), Ross (1977) introduced the incentive signaling theory in finance by creating a research stream that examines voluntary disclosure in financial reports. In this context, signaling theory provides useful data for the interpretation of the level of disclosure in the capital markets where companies compete for their securities and their expected return, as well as for the uncertainty regarding the quality of a company and its securities (Gray et al., 1995).

Several characteristics have been proposed in prior research as explanatory variables of the extent of corporate disclosures. These variables can be categorized into three broad categories: *structure-related* variables such as company size, *performance-related* variables such as profitability, and *market-related* variables like audit firm size. Research on the association of the extent of disclosure with the variables of the above categories has produced mixed results with some studies

finding a significant positive association, other studies finding a significant negative association, and some of them finding an insignificant association.

This study aims to investigate the extent and quality of financial and non-financial information disclosed on the corporate websites during the pandemic and its association with company and corporate governance characteristics. For this purpose, a self-constructed index was used to measure the extent and quality of disclosure of the websites of the companies of the sample. The disclosure index included 70 items. From these items, 61 were based on prior studies and mainly on Botti, Boubaker, Hamrouni, and Solonandrasana (2014), Elsayed, El-Masry, and Elbeltagi (2010), Kelton and Yang (2008), and 9 items were COVID-specific disclosures in order to capture the impact of the pandemic. The items of the index were classified into the following categories: content (41 items), relating to financial information, corporate governance, and corporate social responsibility, presentation (20 items), and pandemic (9 items).

The approach used in the scoring of the item index was unweighted (dichotomous) in which an item scored 1 if it was disclosed on the corporate website and 0 if not. The disclosure score per company (*dscore*) is measured as the ratio of the calculated score to the maximum possible score for this company.

$$dscore = \frac{\sum_{i=1}^{n_j} X_{ij}}{n_j} \quad (1)$$

where,

- n_j = the number of items expected for j th company, $n_j \leq 70$;
- $X_{ij} = 1$ if the i^{th} item is disclosed and $X_{ij} = 0$ if the i^{th} item is not disclosed so that $0 \leq dscore \leq 1$.

The sample of the study contains the websites of all non-financial companies of large and middle capitalization listed on the Athens Stock Exchange (ASE) during 2020. Firms of the financial sector were excluded from the study due to specific reporting requirements, a practice widely followed in prior research. The final sample of the study amounted to 40 corporate web sites, which were accessed during the period from June to August 2020. Each website was scored with the self-constructed index. Data regarding the dependent variables of the study were retrieved from the annual reports of the year ending 31.12.2019, which were released in 2020.

The estimated multiple regression model is depicted in the equation below:

$$dscore = \beta_0 + \beta_1 fsize + \beta_2 prof + \beta_3 lever + \beta_4 a fsize + \beta_5 bsize + \beta_6 owncon + \beta_7 ceodual + \varepsilon_i \quad (2)$$

where,

- *dscore*: the disclosure score of each corporate web site;
- *fsize*: firm size measured by the natural logarithm of total sales;
- *prof*: profitability measured by the percentage of gross profit margin;
- *lever*: leverage, measured by debt to equity ratio;
- *afsize*: audit firm size, a dummy variable that takes the value 1 if the company is audited by one of the Big 4 audit firms and 0 otherwise;
- *bsize*: board size, the total number of members of the board;
- *own*: ownership concentration, calculated by the sum of the shareholders per company with holdings above 5%;
- *ceodual*: chief executive duality, a dummy variable that takes the value 1 if the positions of the CEO and the president are held by the same person and 0 otherwise.

Findings indicate a relatively high average level of disclosure. As far as the pandemic disclosures are concerned, a high level of disclosure was observed on protective measures for the employees, impact on working conditions, and impact on company revenues/activities. On the other hand, a low level of disclosure was observed on a hyperlink to the National Health System (NHS), to the development of remote operations and services and instructions to customers/suppliers.

Regression results show that the level of disclosure was significantly associated with company size, profitability, and board size. This indicates, that during the pandemic, larger companies, more profitable and with more board members, disclosed more information on their websites. Leverage, auditing firm size, ownership concentration, and CEO duality were not found to be significantly associated with the extent of disclosure on corporate websites.

To the knowledge of the authors, this is the first study to examine the extent of disclosures on corporate websites during the COVID-19 pandemic. The results shed light on the factors that affected disclosures on corporate websites during the pandemic and enrich the results of prior research in this field. Moreover, the findings of the research may be useful to clients, financial and credit analysts, investors, supervisory authorities as well as to management, in their effort to improve corporate disclosures and the level of social responsibility.

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CONFERENCE FORUM DISCUSSION

Dmitriy Govorun: Dear Stergios and colleagues, thank you very much for your efforts in researching disclosure issues via the COVID-19 pandemic. I like your idea "once the pandemic is over, to examine if the extent of disclosure is modified". Following up on this idea it would be interesting if you have tried to make the same calculations with a data sample before COVID-19? For example, data within 2019 or earlier. It would be also interesting to see to what extent we may receive analogous conclusion statements.

Stergios Tasios: Dear Dimitriy, thank you for your insightful comments and suggestions. We plan to examine the extent of disclosure during the second wave of the pandemic as well, in order to see if the companies of our sample modified the disclosed information in their websites. Unfortunately, we didn't measure the extent of disclosure prior to the pandemic so as to compare the results.

Dmitriy Govorun: I will be happy to read about the result for the second stage to compare the results. As to the second part of your comment, do you expect that companies will modify the disclosed information or will focus on other operational issues (from your point of view)?

Stergios Tasios: Since the profitability of many corporations will be severely affected these companies may disclose more information in order to justify their performance. Moreover, I believe there will be an increased disclosure regarding actions taken by management to face the pandemic and corporate social responsibility.

THE EU ESEF MANDATE: AN OVERVIEW OF CHALLENGES FOR ISSUERS

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Abstract

The European single electronic reporting format (ESEF) mandate on the annual financial reports of companies listed on the European Union regulated markets, as provided by the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 (Regulation), with regards to financial periods beginning on or after 1 January 2020, represents a key milestone in the evolution of financial reporting in the Old Continent. Not only because it requires issuers to prepare their annual financial reports in the extensible hypertext markup language (XHTML) so that they can easily be browsed on the internet, but primarily since it allows part of their contents to be tagged and processed via the extensible business reporting language (XBRL) protocol, for the purpose of improving transparency and usability of financial information and facilitating analyses and comparability of corporate performance.

This study adopts a qualitative approach to investigate the main potential challenges for issuers of an ESEF-compliant annual financial report, both from an accounting and corporate governance standpoint. It might be of interest to understand, through a comparative approach, whether the challenges assumed as part of this work will be more or less significant as compared against the ones identified by the international literature on the same subject, primarily with regards to the most important implementations of XBRL, namely the one in the United States: we expect that, in “building” and implementing ESEF, all flaws

occurred in other capital markets' transition to XBRL be at least in part, if not completely, removed, thereby smoothing away all critical issues.

A first issue has to do with the impact of the new format required on the preparation of the financial statements, specifically with regards to the XBRL tagging: the Regulation mandates said tagging for the consolidated financial statements prepared according to the International Financial Reporting Standards (IFRS) and, in its earlier application, solely for the primary financial statements. The core taxonomy to be adopted is the ESEF taxonomy, which is no other than the IFRS taxonomy issued by the IFRS Foundation, that may be extended however to take into account, where additional items are required and complying with some very specific tagging rules (i.e., anchoring), an extension taxonomy created by every single issuer. Will current statements comply with the IFRS taxonomy concepts, albeit within the constraints of local regulations and corporate features, or are we about to witness an (maybe) uncontrolled proliferation of customized items as we have seen in the US experience? The rise in the number of taxonomy extensions, on the other hand, has been debated at length in the literature: supporters maintain that a significant number of extensions enables users to effect in-depth analyses on every single company; opposers believe, on the other hand, that it jeopardises comparability, undermining any effort in conducting industry reviews and analyses.

A second issue concerns the compliance of procedures and internal audit systems with the Regulation provisions. Researches conducted on the US experience highlight the importance of adequate management of financial statements' digitization at a corporate governance level: the stronger the focus set by corporate governance, the more resources will be allocated to enhance internal control systems and procedures, thereby avoiding errors in tagging and the creation of extensions, and delays in the preparation and production of tagged financial statements. The issue also concerns ESEF-adopting issuers: a solution might involve both closer attention paid to the issue in terms of code of self-discipline and, on the part of supervisory authorities, the publication of guidelines on the best practices in use at a global level.

Thirdly, control of the ESEF coding should also be considered. Unlike the US experience, it seems that the European Member States will involve Auditors, particularly if we take into account the guidelines set forth by the Committee of European Auditing Oversight Bodies (CEAOB) on 28 November 2019. According to the European approach, Auditors should provide an opinion on the consistency between the XHTML file – provided that the document has never been audited – and the audited financial statements, and the compliance of marked-up items with the ESEF provisions. In Italy and Germany legislative actions were taken in that direction; for the sake of completeness, it should be noted that the United Kingdom might be adopting the US approach. It is

desirable that at a European level, or at least at the European Union level, a common behavior be promoted; the rationale lies in the fact that, based on the choice made, judgment on the reliability of the information provided to the market, and on the expenses pending on companies, might also change dramatically.

Finally, the issue of the expenses stemming from the ESEF adoption for companies should also be addressed, both in the transition period and ongoing. As highlighted by the literature on the subject, the matter is related to the information systems, to the company's internal control and procedures, to personnel training, and advisory and outsourcing services; it should be noted that the economic burden of the transition to ESEF falls in a period of economic distress such as the one following the COVID-19 pandemic. The very context within which the first-time adoption of ESEF takes place should serve as a ground for a 12-month delay in its application, as seems to be the case according to recent rumors within the European institutions. The difficulties and expenses related to the transition to a new format are all the more meaningful when in connection with ESEF, as compared to the US experience, for two additional reasons: an early application or test period was never set forth in the first place; the mandatory adoption did not make any distinction based on company size. This obviously has an impact on said difficulties and expenses, specifically with regards to the less significant listed companies.

Despite the lack of empirical evidence, which represents a major constraint on our work, we believe it might contribute to the developments in the literature on the issue of the digitization of financial information, which at the moment it does not include, to the best of our knowledge, publications on ESEF. This study, therefore, pursues two main objectives: support issuers in understanding the new format and its benefits and challenges, and raise the awareness of European Union and National Competent Authorities so as to provide support to all operators involved in this key milestone in financial reporting.

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CONFERENCE FORUM DISCUSSION

Dmitriy Govorun: Dear colleagues, I would like to thank the authors for overviewing such technical and “digital” topic regarding reporting. It was interesting to read more about the European Single Electronic Reporting Format and implementation issues. You have mentioned that based on US experience you found the importance “of an adequate management of financial statements’ digitization at a corporate governance level: the stronger the focus set by corporate governance, the more resources will be allocated to enhance internal control systems and procedures, thereby avoiding errors in tagging and the creation of extensions, and delays in the preparation and production of tagged financial statements”. What are your ideas on how such

digitalization should be realized in terms of the Continental model of corporate governance with its approach to internal control mechanisms?

Andrea Fradeani: First of all, thanks Dmitriy for the interesting question. One of the objectives of our study is to understand the differences, in the adoption of XBRL, between the US and continental European Union experience and the different characteristics of corporate governance are a variable to be taken into consideration.

Andrea Fradeani: In my opinion, an important factor is given by the level of integration – in the corporate reporting supply chain – of the ESEF coding (in particular of data tagging and creation of extensions) of the Annual Financial Report: on the one hand, the companies that will implement this process in house, on the other those that will tend to implement it in outsourcing. The choice will obviously have consequences in terms of type and extent of internal controls: it is perhaps possible to imagine that companies with stronger corporate governance tend to the first solution, seeking full control of the process, while the others could be outsourced more frequently the process. It would be interesting to understand, therefore, if and how this affects the quality of the coding in ESEF and, therefore, of the data communicated.

Eugenio Virguti: Good morning, Dmitriy and thanks for your interest in our abstract. With regards to the approach that corporate governance should take in order to not only ensure full compliance with the ESEF Regulation, but also enhance the quality of the information provided to the markets and hence reliability of data and, all in all, corporate reputation, we think that appropriate resources and control mechanisms at all levels (line controls, first level controls, and audit controls) should be put in place. This, however, requires corporate governance awareness of what Inline XBRL really means to corporate information. We think that a sound approach should consider digital financial statements as the “financial statements” and therefore the same internal control mechanisms that currently apply to the preparation of the official financial statements should be put into place. All the more so, since digital financial statements will be utilized by investors worldwide.

Marco Venuti: Dear Dmitriy, thank you for your interesting comment. In addition to Andrea and Eugenio’s answers, I observe that internal control weaknesses in firms have an impact on the timeliness of the publication of financial reporting in XBRL format and on the reliability of data generated. I believe that companies might implement XBRL in ways that substantially improve information gathering and reporting; or make better use of XBRL to enhance its benefits, regardless of the implementation strategy. This is that may give rise to further research in order to understand better the relationship between control and XBRL.

FINANCIAL TECHNOLOGY IN THE FINNISH BANKING SECTOR AND CHANGING STAKEHOLDER DYNAMICS IN THE COVID-19 ERA

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Abstract

Financial Technology (FinTech, hereafter) has integrated with the operations of the financial sector, in general, and banking sector, in particular. However, FinTech is a relatively new and under-explored phenomenon, both in the academic and corporate spheres. The current study aims to explore the following research objectives: the role and relevance of FinTech in the commercial banking sector in Finland; and second, the changing dynamics of stakeholders of the banking industry in the light of FinTech. Due emphasis has been laid on the fallouts of Covid-19 when exploring the abovementioned objectives. The primary data has been collected through interviews, whereas the quantitative data has been sourced by the banks' annual reports. The study shows that FinTech has a strong impact on all the main stakeholders and activities in the bank in many ways. Significant impact of FinTech has been observed on the following aspects of the banking sector: customers, investors, operations, competitiveness, and future growth. The respondents' opinions and data indicate that the FinTech considerably impacts banks' strategy, risk management, operations, and investors. FinTech adoption has been contributed by the growth in the IT sector, in general, and innovations in the field of financing including crowdsourcing, and peer-to-peer financing, in particular. Nonetheless, the unpredictable factors, such as the ongoing Covid-19, can influence

the future innovation and adoption of FinTech. Changing customers' demands and behaviours have also facilitated FinTech adoption. Banks have been integrating FinTech into insurance services and this feature has become more profound ever since banks increased their cooperation with the international insurance companies. Similarly, there has been a significant increase in collaboration between banks and FinTech start-ups.

1. INTRODUCTION

Technological developments have influenced modern-day businesses in several ways including business ideas, planning, strategy, operations, innovation, and performance, to name a few. However, technology does not reach out to the financial sector as it does in case of the non-financial sector. This is so because the financial sector is a highly regulated sector, and it entails substantial personal and business sensitivities (Borio, Vale, & von Peter, 2010). After the global economic crisis of 2007, the financial sector has been inundated by a series of new developments and the technological development in this sector is one of the most significant amongst all. The current paper receives its motivation from the ongoing discourse whether FinTech will supplement the banking sector with respect to the performance of the latter including efficiency and expansion or it will even supplant the traditional banking institutions. Furthermore, the discourse underlines whether traditional banking institutions will successfully adopt technological innovations, redefine their performance measures and continue to exist and thrive or whether these institutions will be devoured by the technology wave. Similarly, the current discourse underpins whether the rise of Fintech in the banking sector is compatible with the ongoing Covid-19 pandemic and any similar potential 'shocks' in the time to come, which can disrupt, for example, social, psychological, economic, business, political equations in the nations across the world.

FinTech, on the one hand, has necessitated banks and other financial institutions to keep pace with the technological advancements and, on the other hand, it has motivated them to ingrain and upscale the user-centric approach in their business models. FinTech has played an instrumental role in transforming even the traditional operations of banks including payments, borrowing, transfers, lending, and investing (Chishti & Barberis, 2016). Noticeably, the commercial banks not only apply their *home-grown* financial technologies into their operations but also utilize the services of specialized FinTech companies to enhance their efficiency, service quality and overall competitiveness.

According to the PwC (2017) report, up to 77% of financial institutions are expected to intensify their internal efforts to innovate with the purpose to enhance security and reflect their commitment to the adoption of FinTech. On the other hand, it is being argued that in

the long run, due to the lack of digital strategy, many banks may experience a decline in their performance. Similarly, due to the distinct nature of their balance sheet, it is difficult to apply traditional accounting indicators-based performance measures to evaluate the performance of banks. Amidst the wave of FinTech, the need to redefine the performance measurement system of banks has gained even more momentum.

The selection of Finnish banks in the current study has been motivated by several factors. First, Finland is one of the most digital societies in Europe and the world. Second, the Finnish businesses substantially invest in the digitalization of their operations and the Finnish banks are no exception to it. Third, Finnish banks seem to be the first ones to capture the change in the competitive landscape in the financial sector due to the inundation of technology in it. Hardie, Gee, and Hannestad (2018) find that the percentage of the revenues of Nordic banks including those of Finland perceived to be at risk due to the FinTech interference in the next five years has soared 12 points to 38% in 2018, which is 7% more than among European banking peers. Furthermore, the number of FinTech companies in Finland is significantly increasing.

The study addresses the following research objectives-first, to study the role and relevance of FinTech in the commercial banking sector; and second, to study the changing dynamics of stakeholders of the banking industry in the light of FinTech. The above objectives have also been studied in the light of Covid-19 since this pandemic has affected the entire world like no other event has in the recent history. The primary data has been collected through interviews, whereas the quantitative data has been sourced by the stock exchange and the banks' annual reports.

2. LITERATURE REVIEW

Vasiljeva and Lukanova (2016) state that "*FinTech is an industry-oriented toward arranging financial services for private individuals and industries with the aim of providing customer-oriented solutions in the most efficient way and at the lowest cost possible, ensuring this via innovation and technology*" (p. 25). Some of the definitions include e-commerce and cybersecurity as distinct components of FinTech environment. Vasiljeva and Lukanova (2016) underscore FinTech environment as service-oriented, data-oriented and process-oriented. Service-oriented activities refer to the development of technologies related to services traditionally provided by financial institutions, e.g., fund transfers or card payments, lending and investment, peer-to-peer lending, crowdfunding, or foreign exchange. Data-oriented activities include solutions and technologies devoted to collecting, processing and analysing information. Process-oriented activities include

cost caps and processes that are aimed at increasing efficiency and process automation, which have started to develop after the financial crisis of 2007 when the banking industry all over the world was forced to re-define its operating models (Borio et al., 2010).

In the banking industry, FinTech primarily focuses on the advancement of banking services and products, which contribute to the enhancement of customer satisfaction. The key priorities of the customers of commercial banks are convenience, personalisation, accessibility, user-friendliness, transparency, safety, speed, and affordability. Modern-day customers expect their banking service providers to integrate with their daily life. Moreover, their demands also include easy access to their financial partner, which means a convenient interface having all the necessary features ranging from the handy design of online and mobile banking apps to the digitalization of documentation. The customers want real-time advice based on transactions and behaviour, enhanced custody and protection of their personal data and responsible data sharing (Chishti & Barberis, 2016).

Within the banking industry, the competitive edge is created by the delivery of superior services that meet the needs and expectations of both private and corporate customers. The creation and maintenance of good customer relationships are largely dependent on banks' ability to make quality service available to their customers. A high level of product quality leads to a high level of customer satisfaction and therefore results in the form of increased customer loyalty (Ennew, Waite, & Waite, 2017). However, it has been a challenge for the banks to adapt themselves to the growing customers' demand and successfully implement innovative technology in large organizations based on information technology since the 1970s. FinTech has an outstanding potential to transform banking businesses and meet the unprecedentedly growing demands of modern-day customers successfully.

The successful partnerships and co-operation between banks and FinTech companies, especially the start-ups, have been showing a win-win situation for both parties by capitalizing each other's strengths. For example, start-ups can focus on product design and development, while banks can help agile players with distribution and infrastructure capabilities. Since FinTech development is still at the infant stage, therefore, on the one hand, banking institutions can play an important role by providing financial resources to FinTech firms, especially start-ups, which in turn can motivate FinTech firms to upscale and improve their products, services and business strategies. On the other hand, banks are important clients of products and services FinTech firms, therefore, the success of FinTech firms can be beneficial to the banks. The collaboration with FinTech firms can help banks to reduce structural costs, enable enhanced regulatory compliance and better service quality.

The most applied technologies within the commercial banking sector include digital technology, electronic banking, alternative payment methods (APMs), distributed ledger technology (DLT), blockchain and cryptocurrencies, artificial intelligence (AI) and machine learning (ML), internet of things (IoT), open banking application programming interface (APIs), etc.

1. Alternative payment methods

Alternative payment methods refer to cashless payment methods. These include payments made using a credit or debit card, loyalty program points, bank transfers, direct debits, e-wallets, mobile, local card schemes, pre-pay, post-pay, e-invoices or cryptocurrencies. In some of the cases, such as credit or debit card usage, banks serve as financial intermediaries, and in some cases, such as payments via e-wallet or in cryptocurrencies, there is no need for a third party between payer and receiver. The transactions are usually conducted in real-time. APMs offer customers a more streamlined, user-friendly, and cost-effective experience, making the payment execution better, faster, and cheaper. The emergence of the APMs is affecting the behaviour of consumers because the payment mechanism has been shifting from physical locations to digital channels.

2. Digital technology

In the modern world, the biggest channel of reaching customers is online and mobile banking. Online banking refers to any banking transaction that can be managed through the internet, generally via a bank's website under a private profile, using a desktop or laptop computer; while mobile banking allows a user to carry out nearly the same activities using a mobile app on a smartphone or tablet, instead of using a desktop computer. As a rule, the transactions which can be performed through the internet or mobile banking are the ones that include services traditionally offered at local branches. These financial transactions include paying bills or transferring money from one account to another, viewing account balances, viewing, or printing statements, viewing images of invoices, and applying for loans or credit cards.

3. Automation

Automation is defined as the conversion of a work process, a procedure, or equipment to the automatic operation or control. Automation does not simply transfer human functions to machines, but also involves a deep reorganization of the work process, redefining both the human and the machine functions. AI is an important aspect of the automation and it is comprised of adaptive and/or autonomous machines, particularly computer systems, which simulate the human intelligence processes, such as learning (the acquisition of information and rules for using the information), reasoning (using rules to reach approximate or definite conclusions) and self-correction. AI is important because it automates repetitive learning and discovery through the data. It can implement frequent, high-volume, computerized tasks consistently

and without fatigue. However, still, this type of automation requires a human inquiry to set up the system and ask the right questions.

4. Internet of Things

The Internet of Things represents a network comprised of physical objects, which gather and share electronic information. This network includes a wide range of *smart* devices, which often use internet protocol (IP), which identifies computers over the world wide web and allows them to intercommunicate. The main idea behind the IoT is to have devices that self-report in real time to improve efficiency and bring important information to the surface more quickly than a system, which depends on human intervention. The IoT can bring value to the banking organizations in the form of innovation of business operations, retaining the customers base and increasing customer loyalty. The IoT helps the banking sector to provide rewards, easy-to-access services to both credit and debit card customers. The banks can alter the number of automated teller machines (ATMs) installations depending on the usage volumes in specific areas. The IoT also allows banks to bring on-demand services and increase their accessibility to customers by providing kiosks at convenient and easy-to-access locations.

5. Open banking API

Application programming interface is a code that allows two software programs to communicate with each other, defining the correct way for a developer to write a program that requests services from an operating system (OS) or other applications. To put it simply, an API is a way for two computer applications to talk to each other over a network using a common language that they both understand. Open APIs are a critical component in boosting the speed of innovation because payment companies can publish APIs to expose source code and allow the online ecosystem of developers and FinTech companies externally to enhance products and services or create net new ones.

Internal use of API integrates diverse systems and allows for the exchange of data across different departments of a firm by performing API *calls* or sending queries to an API server. It provides internal teams with better collaboration and allows them to access information when and how they need it, thus helping to interconnect services and business processes across the organisation, improving employee productivity and creating better omnichannel experiences for customers. External APIs can also be used to expose business assets such as information, a service, or a product to external audiences, hence, reaching beyond the boundaries of the firm, providing further integration with company partners and allowing third parties to consume organisational data and lead to cross-selling and upselling opportunities down the line.

6. Distributed ledger technology

Distributed ledger technology is identified as an asset database that can be allocated across a network of multiple sites, geographies, or

institutions. The technology allows all participants within a network to have their own identical copy of the ledger. Any changes to the ledger are rejected in all copies within a short period, limited to minutes or, in some cases, seconds. The maintenance of security and accuracy of the assets stored in the ledger is organised cryptographically using 'keys' and signatures to control the authority of participants within the shared ledger. The right to update the entries by one, some or all the participants, is affirmed in the rules agreed by the network.

3. METHODOLOGY

The qualitative data has been obtained through semi-structured interviews. Before the interviews were conducted, the authors had a list of questions to the respondents. As many as six semi-structured interviews of middle and top-level executives have been conducted between April-August 2020.

The respondents included a middle-level executive of the Nordea Bank and the Handelsbanken, two CEOs of FinTech start-ups and two COOs/CEOs of FinTech consultancy firms. The respondents representing both banks are working in the field of business development and corporate banking. All respondents are based in Finland-four in Helsinki capital region and two in Jyväskylä (Central Finland).

4. KEY FINDINGS

Regarding the beginning of the phase of FinTech adoption in Finland, some respondents hold the view that FinTech dates to the late 1970s and the beginning of the 1980s. However, these *baby steps* were in the form of very basic improvements in the functioning of banks and customer experience.

One of the respondents highlights the recession of the 1990s' forced the banks to seek new measures of survival amidst the significant restructuring of the banking sector in Finland and other Nordic countries. The next stage of FinTech adoption in Finland started with effect from the year 2008-2009. A phase of small-sized start-ups appearing in large numbers on the financial services field was witnessed first time, albeit only a few could succeed due to financial, technical, and regulatory constraints. However, some respondents are holding unanimously that the FinTech start-ups already made their mark in the financial sector by 2015. Several interesting developments included venture capital investments, and European Payment Service Directive (PSD2). In particular, the PSD2 aims to 1) to contribute to a more integrated and efficient European payments market; 2) to further level the playing field for payment service providers by involving new players; 3) to make payments safer and more secure; and 4) to improve protection for European consumers and businesses (European Central Bank, 2018).

Two important contributors to FinTech adoption, which have been mentioned by several respondents during the interviews, are the growth in the IT sector in general and innovations in the field of financing including crowdsourcing, and peer-to-peer financing in the banking sector. Nonetheless, the unpredictable factors, such as the ongoing Covid-19, can influence the future innovation and adoption of FinTech.

5. CONCLUSION

The purpose of this study has been to study the following research objectives-first, to study the role and relevance of FinTech in the commercial banking sector; and second, to study the changing dynamics of stakeholders of the banking industry in the light of FinTech. The above objectives have also been studied in the light of Covid-19. The primary data has been collected through interviews, whereas the quantitative data has been sourced by the stock exchange and the banks' annual reports.

The study shows that FinTech has an impact on all the main stakeholders and activities in the bank. More impact of FinTech has been on the following aspects of the banking sector: customers, investors, operations, competitiveness, and future growth. The respondents' opinions and data indicate that the FinTech's impact on banks' strategy, risk management, operations, and investors.

FinTech adoption has been contributed by the growth in the IT sector in general and innovations in the field of financing including crowdsourcing, and peer-to-peer financing was also considered to be the triggers of change in the banking sector. Nonetheless, the unpredictable factors, such as the ongoing Covid-19, can influence the future innovation and adoption of FinTech.

Without a doubt, changing customers' demands and behaviours have also facilitated FinTech adoption. Banks have recognized these changes and are trying to integrate financial services to serve their customers so that these services are not only delivered efficiently but also carry the element of resilience and adaptability without undermining the confidence of banking services users. Indeed, some of the banks have already been integrating FinTech into insurance services and this feature has become more profound ever since banks increased their cooperation with the international insurance companies. This factor is even more relevant amidst the current Covid-19 situation. Similarly, there has been a significant increase in collaboration between banks and FinTech start-ups.

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CONFERENCE FORUM DISCUSSION

Nadisah Zakaria: Hi, it is an interesting issue. The author should include scholarly papers related to the topic. The methodology needs to be explained further.

Shab Hundal: Dear Nadisah Zakaria, I appreciate your comment, and of course I fully agree with you. Unfortunately, there is an acute paucity of scholarly articles written, in general, and the Nordic context, in particular. Furthermore, we deliberately wanted to bring the practitioners' dimension into the debate. The methodology will be explained more for sure in the post-conference version.

Alex Kostyuk: Hello, Shab, you have just picked up several interesting issues in your presentation. One of these issues is about the shareholder value maximization through implementing new, advanced financial technologies in banks in the epoch of uncertainty (the pandemic time). I like this idea very much. So, I know that Scandinavian banks are rather regional, than global with regard to their businesses (I mean bank structures placed abroad). I suppose that the shareholder structure of the banks in Scandinavia is similar – represented rather by Scandinavian shareholders. So, what do you think about the scale of the effect of the implementation of financial

technologies in Finnish banks? Will it be strong and sound enough to attract shareholders from abroad?

Shab Hundal: Hello Alex, you have pointed out very correctly. The Nordic corporate sector is very “regional” and its banking sectors are somewhat similar too if not the same. Most of the Nordic origin banks have a scale effect since they are found in all the Scandinavia/Nordic. However, this scale effect is not available to the non-banking firms (since most of them are SMEs and very regional inclined). Similarly, most of the Nordic FinTech companies are small and they do have the challenges to attract foreign equity, particularly in the traditional form.

Alex Kostyuk: I see your point of view, Shab. So, I see that Finnish banks have resources to be not so “regional” and go beyond the borders but their strategy does not prescribe such a move. At the same time, Finnish FinTech companies do not have enough resources to go beyond the borders although they have such strategic intentions.

Shab Hundal: Absolutely agree. But the problem here is that in the FinTech arrangement, banks buy FinTech tools from these SMSs/Start-ups, and the latter in turn get finance from the former... so in a way, this arrangement of mutual dependence is a win-win proposition for both parties, nonetheless, the downside is that the failure one can inflict financial losses to the other.....

Hadfi Bilel: Thus, the development of techniques and the use of new technology such as digitization in the banking sector, on the one hand, to improve its competitiveness and on the other hand to facilitate its relationship with these stakeholders.

Shab Hundal: You are right; the “umbilical cord” that ties various stakeholders must not break for the success of FinTech.

SESSION 4: GENERAL ISSUES OF CORPORATE GOVERNANCE

EXPLORING ISSUES BEYOND PUBLIC HOSPITALS' GOVERNANCE STRUCTURAL REFORMS IN DEVELOPING COUNTRY CONTEXT OF MALAWI

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Abstract

Countries across the globe are engaged in reforms aimed at transforming organisational governance structures of their public hospitals in order to improve their performance. The reforms have not been overly successful especially in developing countries. One of the major causes for the poor results has been their focus on adopting potent structural models merely based on what is working in developed countries without paying closer attention at the local factors that characterise the environment in which their hospitals operate. The study presents regulative-normative-cognitive factors that have negative effects on the effectiveness of the public hospitals governance structural reforms in Malawi. It is based on documentary analysis and semi-structured interviews using the three pillars of institutional theory.

1. INTRODUCTION

Globally countries have been undertaking governance structural reforms for public hospitals to improve their productivity. Extant studies from developing countries chronicle significant challenges in realising the intended goals. They indicate that the cause does not necessarily arise from the adopted governance structures themselves, but mainly from lack of or poor consideration of the underlying environmental factors. However, despite recognising the significance of the environmental factors, they do not endeavour to identify or describe them. There is therefore dearth of empirical knowledge of the specific factors. This paper aims at contributing to the filling of the gap by examining public hospitals' governance structural reforms in Malawi. It explores the underlying factors beyond structural reforms using the three pillars of institutional theory.

2. ANALYTICAL FRAMEWORK

The process of institutionalization works through regulative, normative, and cognitive pillars. The regulative pillar refers to the "rule-setting activities", normative pillar refers to the best practice "norms" while the cognitive pillar refers to "shared conceptions" amongst actors. Public hospital governance is established by a specific legal framework that takes cognisance of its unique features. Normatively, the regulative pillar is supported by the corporate governance guidelines – the code of corporate governance. The code provides contextualised guidance of generally accepted organisational governance best practices. On the other hand, the cognitive pillar deals with the entrenched cultural behaviours of the actors. Ntongho (2016) observed that within already established institutions it may "require a phenomenal set of events or circumstances for a culture that has been enshrined and developed for generations to be uprooted and replaced by a model that is disputed to be more efficient" (p. 537).

3. METHODOLOGY

Data was collected using 21 semi-structured interviews and documentary analysis. It was thematically analyzed using both semantic and latent analyses. The data was examined to unearth the underlying ideas and conceptualisation that provided the conceptual structure whose interpretation provides insights of the underlying issues beyond the structural reforms.

4. FINDINGS AND DISCUSSION

Using the regulative-normative-cognitive framework, this section presents five issues that emerged as having considerable effect that imperils implementation and effectiveness of structural reforms for the public hospitals in Malawi.

4.1. Regulative dimension

Lack of specific legal framework: In Malawi, there is no law that specifically prescribes the governance system for public hospitals, reliance is placed on the laws that commonly apply to the public sector. The fundamental challenge is that the general laws fail to regulate unique aspects of the public hospital governance system thereby undermining its optimality. There is, therefore, a need for prescription of a specific legal framework in the law.

4.2. Normative dimension

Lack of understanding of what organisational governance entails: Understanding of the concept of organisational governance and code of corporate governance is very low. This is worrying because Cripps, Kress, Olson, and Ross (1998) recommended that the structural reforms were to go together with the development of corporate governance guidelines (presuming conceptual knowledge) to enhance the effectiveness of the structural reforms. Thus, deliberate efforts are needed to enrich conceptual knowledge and of the underlying normative instrument amongst the actors.

4.3. Cognitive dimension

Need for mind-set change: The reforms are aimed at adopting applicable private sector principles and techniques, however, there is a serious mindset problem, i.e., the dearth of productivity-driven mindset, one of the critical attributes that propels the private sector. The performance management system needs reviewing to revitalize the productivity-driven mind-set. As an entrenched cultural issue, it requires "...a phenomenal set of events or circumstances" (Ntongho, 2016, p. 537) to succeed. Thus, exceptional efforts should be a subject of thorough consideration in the reform efforts.

Politics and political interference: Culturally, politics prevails over professionalism, which negatively impacts the implementation of sound governance practices. Politicians remain as critical enablers, however, their roles must be properly defined and restricted to overseeing the technocrats. From an agency theory perspective, politicians function as a "board of directors" to monitor the actions of the technocrats

on behalf of the citizens. It appears that they overstep their boundaries motivated by self-interests. Accordingly, Cohen and Karatzimas (2015) argue that citizens need to change their role from being spectators to influencing players. They suggest active monitoring by the citizens to control the actions of the politicians. As such "citizen activism", an equivalent of shareholder activism in the private sector, seems to be a potential avenue and a quick supplement to the use of the electoral ballot. Considering the low level of empowerment amongst the citizenry, "institutional citizen activism", an equivalent of institutional shareholder activism needs to be explored.

The urgency in carrying out regulatory reviews and organisational reforms: The country is still using admittedly an inadequate Public Health Act of 1948 as primary health legislation. Its revision started a decade ago but it is still on-going. Besides, plans to establish hospital boards were hatched two decades ago but up until now, they are yet to be implemented. Additionally, the decentralisation reforms started two decades ago but they are yet to provide a clear operating model for the district hospitals. A sense of urgency in reviewing and reforming the tools and structures is critically needed because the current era requires constant and quick change as an ongoing strategy. This is another entrenched cultural issue that requires exceptional efforts to be uprooted.

5. CONCLUSION

The paper has presented five factors that highlight the necessity of carrying out contextual "non-structural" analyses to inform the process of governance reforms for the public hospitals in Malawi. It provides evidence for the need for researchers to pay closer attention to underlying factors with the view of identifying and understanding what they are. Most likely, the issues highlighted in the paper represent a tip of an iceberg; there is a need for further studies to exhaustively identify the factors and furthermore to measure their impact on the reforms and structural efficiency. Furthermore, this being a qualitative study, further studies need to consider the use of a quantitative approach to enhance statistical generalisation.

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CONFERENCE FORUM DISCUSSION

Bashar H. Malkawi: Why there is a need for special law governing the health sector. General corporate governance can apply to any organization.

Andrew Lipunga: A special law governing public hospitals in particular. In settings like Malawi, where personal integrity is not really prized and selfish interests seem to be the underlying motive, the general corporate governance framework is not adequate for lack of coercive authority.

Iliana Haro: Hi Andrew I understand your concern, but maybe is not a new law what you need but to improve the existing corporate governance rules and their enforcement.

Andrew Lipunga: Hello Iliana, the current law relating to public hospitals – the public health act, does not have any provision on organisational governance on which the enforcement of existing corporate governance rules can be based. In fact, the Ministry of Health has been failing to establish hospital boards in central hospitals reportedly for lack of enabling legislation. By the way, the trend globally is to have a special law prescribing public hospital governance e.g., NHS Act in UK or having it specifically incorporated within the general public health Act eg in New Zealand. This is done over and above the existing corporate governance rules.

RETHINKING RISK GOVERNANCE

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Abstract

Risk governance is a growing concern within the corporate governance arena. Excessive focus on compliance and too much focus on financial risk are a risk in itself. There are other types of strategic risks, which have the power to collapse or severely damage organizations. Several risk categories are identified and examples provided where several disasters showing evidence of the importance to approach risk governance in a multidisciplinary and holistic way. The current pandemic endeavour illustrates how human organizations, even whole States, are unprepared to deal with risks. A holistic approach ensures better identification and management of potential risks that may affect organizations. Taxonomy of risks helps classify several relevant categories of risk while arising awareness and visibility, helps direct efforts towards better risk governance, especially when combined with decision-support tools.

1. INTRODUCTION

Current approaches to corporate governance have shown that a normativity approach, while necessary, is not enough for effective risk governance. A prudent and multidisciplinary approach is needed. There is plenty of evidence that performance is not good enough when it comes to risk governance. From lost opportunities to innovate to major disasters whose risks were not properly governed. For instance, technological change lacks visibility or major technical accidents. The recent *Boeing* planes crashes and *BP Deep Water Horizon* accident in the Gulf of Mexico, whose roots point towards ineffective risk governance, are two examples. Although governance codes address the board directors' responsibility, it does so within a normative standing. It needs to go beyond compliance, as the realisation of a company's future is a matter of

initiative, not optimisation. Hence, boards should be pursuing corporate objectives while carrying out adequate governance of the multiple risk types, some with the potential to severely damage the company.

This text calls attention to the need for a holistic view over any strategic risk, beyond financial ones, which have gained more media coverage and attention from regulatory efforts. There are many other types, in need of attention in order to avoid 'blind spots'. For instance, considering the present pandemic, which caught the overwhelming majority of companies, ill-prepared health systems, or countries with ineffective economic strategies that became most exposed to its consequences. The current endeavour requires a growing dedication from individual board directors, which may prompt many of them to decline or resign from such roles.

In this sense, an appropriate research question would quest for a holistic approach to risk governance. Reality does not draw borders between fields of knowledge, nor do risks. Hence the chosen analysis is multidisciplinary. The work of leaders is to act in order to achieve a future situation for the organization, better than the current one in relative terms, which requires addressing the organization holistically to ensure that undesirable side effects are minimized. The business policy model, consisting of four governing areas (the business, structure, incentive systems, and institutional configuration) provides a holistic approach. Agua and Correia (2020) provide an overview of the business policy model. This text comprises four sections. Section 2 calls attention to the insufficiency of compliance. Section 3 argues against the risk narrow focus and presents a preliminary taxonomy of risks. Finally, some conclusions are drawn in Section 4.

2. COMPLIANCE IS A NECESSARY CONDITION, HOWEVER NOT SUFFICIENT

A business results from a compromise between benefits and the amount of risk taken. However, the acceptance of too much risk has the potential to collapse the business at some times. Among the ten trends concerning the boards of directors of the future, pointed out by Nueno (2016), we have: 1) greater accountability; 2) fewer administrators; 3) more rigorous requirements; 4) more transparency, 5) better prepared; 6) a greater role for specialised governance committees. For his part, Ormazabal (2016) argues that this growing demand and accountability upon directors, not restricted to risk governance, but their role as responsible directors, has the potential consequence that many directors will tend to leave their jobs. On the other hand, the existence of a Chief Risk Officer, who is directly answerable to the Board of Directors, namely to committees responsible for risk governance, is becoming common across several industries. Although sometimes uncomfortable for the managing director or CEO, the creation of this figure can help the board of directors to be more effective in what risk governance concerns. Distinguishing between

risk governance and risk management is a mere formalism. Just as the whole world constitutes a system, which we only divide into subsystems to be better able to deal with complexity. When addressing the subject of risks, regardless of the perspective being from the governance layer or from the management layer, when risks materialize, they will affect the entire organization, regardless. Risk governance is further aggravated by cognitive limitations (Simon, 1957). Consider for example Table 1.

Table 1. Humans have a limited ability to estimate outcomes

<i>“With more than 50 foreign car brands already on sale here, the Japanese car industry will hardly affect the US car market”.</i>	<i>Business Week, 2 August 1968.</i>
<i>“A severe depression like the one in 1920-21 is outside the range of probabilities”.</i>	<i>The Harvard Economic Society, 16 November 1929.</i>
<i>“I think the world market will only have room for about five computers”.</i>	<i>Thomas J. Watson, Chairman of IBM, 1943.</i>
<i>“There is no reason for an individual to have a computer at home”.</i>	<i>Ken Olson, President of Digital Equipment Corporation, 1977.</i>

Source: Adapted from Cerf and Navasky (1984).

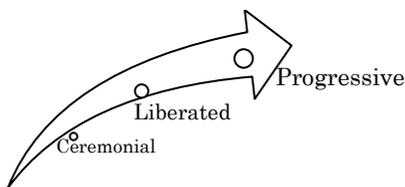
The aforementioned limitations originate estimation errors about the unfolding future events. For instance, the invention of the digital camera, which was not given relevance by the Kodak board of directors, is an example of a board’s failure to harness technological risk. Having established the level of human proficiency to predict, estimate, and deal with risk scenarios, it is suggested that the theme will need a multidisciplinary approach, for effective risk governance. The tasks that the board of directors should address are essentially those tasks that determine the prosperity and sustainability of the business by accepting an ‘adequate’ level of risk.

Corporate governance codes generally suggest some form of a risk management system to be set up. This suggests that organisations should systematically establish a risk management system; and should, periodically, assess the performance of such a risk management system. It, therefore, appears that effective risk governance cannot rely just on regulations or codes of good practice. These codes are necessary, however not a sufficient condition for effective risk governance.

Various efforts have been made to understand and better manage risks. Ranging from the introduction of the ISO 31000 standard to the spending of hundreds of millions on ERM (enterprise risk management) systems, in some cases with results that fall short of expectations, as ERM systems by attempting to cover each one of the identifiable risks in a company, end up generating an unsurmountable amount of data, which ends up distracting those responsible for risk governance. Besides, due to its mere existence, ERM systems brought a “false” sense of safety. Most of these systems treat risks as independent of each other, when this is not necessarily true,

producing amplified effects when risks materialize. It is within this balance between risk and profit that risk governance has to be carried out, which demands greater involvement and responsibility from directors. Charan (2005) provides a brief review of board stages evolution towards the ‘progressive’ board concept (Figure 1).

Figure 1. Board’s evolution



Source: Adapted from Charan (2005).

A “progressive board” engages proactively with executive management, supporting it, and carrying out effective risk governance with directors being proactive in asking for information, visiting the organization’s facilities and operations, and asking the right questions to the management and challenges the answers.

3. TOO MUCH FOCUS ON FINANCIAL RISKS

Besides the financial risks, there are many types that can severely affect an organization. Despite the focus on financial risks, some authors alert to broader non-financial risks, which may be strategic (Cerrone, 2019). Starting with the identification of risk types is good practice, as it brings visibility over known typologies. Bromiley and Rau (2016) suggest that grouping risk into categories enable a more effective approach (Table 2).

Table 2. Risk categories

<i>Categories of risks</i>	<i>Examples</i>
Strategic risks	Industry and economics; political change; competitors; consumer preferences; market share; reputation; brand value; strategic focus; investor confidence.
Operational risks	Customer satisfaction; product failure; supply chain; sourcing; concentration; outsourcing; political election cycles; disasters; process execution; procedures; environmental; contracts; regulation and legal; human resources; health and safety; integrity; authorities; leadership; culture; initiative and knowledge.
Financial risks	Cash flow; liquidity; interest rates; exchange rates; credit capacity; credit concentration; accounting and budgeting; taxation and pricing; performance and portfolio measures; access to systems and infrastructure; systems availability; data relevance and integrity.

Source: Bromiley and Rau (2016).

It is legitimate to question whether the focus should be on financial risks, often short-term results, or instead, technical, operational, reputation, among others risks, which are real risks that can dictate the fate of companies. Hubbard (2009) suggests that the way risk is approached by most organizations is superficial, rarely taking cause and effect into consideration, something due to the fact that systems thinking is not a widespread practice as would be desirable, and most do not understand the underlying structures of systems, behind the observed problems. Focusing on the business policy model areas and questioning can support a better approach to risk governance:

- How does risk X affect the business?
- What is risk X relation to the corporate structure?
- What is the relationship between incentive systems and the risk?
- Are incentive systems inducing less ethical behaviour on employees?
- How does the organization's culture affect the risk or is affected by it?
- How is the level of initiative and innovation across the company?

Through systematic questioning, the board can generate additional visibility, and assess how risks affect the organization's four dimensions: business, directing structure, incentive systems, and institutional configuration.

4. CONCLUSION

The tasks that the board of directors should address are essentially those tasks that determine the prosperity and sustainability of the business in the presence of several risk types. Risk governance would benefit from a holistic and multidisciplinary approach. The board may delegate authority to the CEO, but it cannot delegate its own responsibility concerning the supervision of management actions, including responsibility for risk governance. This text argues against an excessive focus on financial risk types, as well as the normative approach with a focus essentially on compliance. Compliance allows complying with the minimum, but it is prudence and sound decision-making that aspires to maximum performance, as evidenced by the multiple examples of bad corporate governance, where companies had information, codes of good governance, however, did not avoid the disaster. Classification of risk typologies with potential strategic impacts is a critical starting point for effective risk governance, and it is necessary to go beyond normativism, making use of prudence and decision support tools.

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CONFERENCE FORUM DISCUSSION

Alex Kostyuk: Dear Pedro, thank you for the presentation, and welcome to our conference forum. I keep in mind the hot topic of the world financial crisis happened more than 10 years ago when the hot topic of corporate governance was linked to the term "Chief Risk Officer". I agree with you that recently when the pandemic stressed the world economy and companies around the world it would be too naive to suppose that the term "Chief Risk Officer" empowered with "Compliance" will "save the world". What is your point of view about the words from the vocabulary of corporate governance, which should become the keywords in the epoch of pandemic?

Marco Venuti: Dear Petro, thank you for your presentation. Recently there is more attention towards the environmental social and governance risks. Do you think that this attention to ESG risks is appropriate during a health and economic crisis that impacts heavily the company's financial position? If yes, for what reason?

Eugenio Virguti: Dear Pedro, it was interesting to read how excessive compliance and risk management may sometimes originate risks per se. If possible, I would like you to expand on how you think a holistic approach could be put into place and somehow prevent catastrophic events.

Pedro Agua: Dear Alex and Marco, it's obvious that companies (and organizations at large) shall engine in purposeful governance. Actually, perhaps it's better to name "directors" as opposed to companies, as the latest term due to its vagueness doesn't carry proper accountability while individual people do. Sustainability and the environment are of the essence; however, our focus has been on trying to call attention to many severe risks than the mere financial ones. It is still ongoing work but using big data/analytics and other AI techniques we, (I and Anacleto) we are trying to use such techniques to clearly "demonstrate" that perhaps to become "purposeful", companies shall have a more systemic approach to risk as opposed to the "narrowband" approach. This isn't an exclusive problem within the realms of governance. It's much broader as some authors have been calling attention to, (For instance Hubbard, Dorner among others that may be classified as systems thinkers). Moreover, it starts seeming that no one field of knowledge has a complete solution. And silos among knowledge areas don't help (law, economics, general management, psychology and sociology, engineering, mathematics, etc.). For example, one can ask what's behind the tragedy that has been facing Boeing? Too much focus on financial (short term) performance? What about the US\$62 billion fine BP had to pay due to its Deepwater Horizon disaster in the Gulf of Mexico? What did the KODAK board of directors do to anticipate the age of digital cameras? Our point and our ongoing study are to analyze the root causes of such a disaster and try to provide evidence on the need for boards to refocus their attention.

Pedro Agua: Dear Eugénio, I couldn't agree more with you. However, our study is not only to refine a sort of "Taxonomy of Species", to make a parallel with Darwin's classic but also to find some Pareto frontier where to focus the attention of boards. Perhaps on an industry by industry basis. As industries seem to have specific categories of risk. Moreover, system's thinking is not a natural act (<https://ieeexplore.ieee.org/document/5482446>). It may be more of a "hardware" than a "software" issue. The truth is that most of us, besides our cognitive limitations, are also constrained, more or less, when it comes to systems thinking, and as the reference above suggests it doesn't even depend on the education background or level. It has to do with the structure of the brain itself. A fascinating field of knowledge when we bend Economics, decision making, psychology among other "lenses" to look into this huge subject of risk.

Eugenio Virguti: Thanks for your response, Pedro. I found your approach very interesting. I will look further into it.

Pedro Agua: The pandemic itself is a risk that materialized and should bring lessons for many domains, within a system thinking framework. How are national health systems organized and prepared? (Vis-s-vis the financial costs of surrendering to the virus effects and inject billions in any currency to help countries and populations? What

industries are less affected by a pandemic? Are states considering focusing on those industries as opposed to some easy ones, as is a practice in some countries that due to the fact they have beaches and sun, just massively invest in the tourism industry (resulting performance outcomes are in sight)? Shall a country have a more diversified set of core industries across its economic tissue? Of course, some of these questions rise to the level of grande governance, as opposed to just corporate governance, but both are interrelated, and at the end of the day all national wealth comes from the latest.

Dmitriy Govorun: Dear Pedro, thank you very much for your efforts and comments. Risk governance as a topic to research is still under the interest of researchers and practitioners. Each time we force some challenges worldwide we have to think over risk nature, types, and how to deal with consequences. While reading your paper and comments I was wondering should there be changes in risk policies for boards or committees in regard to use your approach?

Pedro Agua: Thanks for your words, Dmitriy. Some of the most prominent authors in the field are suggesting there is a change on the way. From Jay Lorch to Pedro Nueno (IESE Business School), among others have been writing about this. Moreover, it may generate some temporary crisis to attract board directors for some roles, (mostly the ones related to risk governance) as they – at their stage in life – may start resigning or not accepting such roles due to the perceived risk-taking increase, alongside with demands to dedicate significantly more time and attention to their company's governance. Is my belief that while management has been benefiting from a massive analysis and contributions during the last 50 years at least, that's not necessarily true with the fields of corporate governance – a much younger field, when we approach it as a solid and ordered field of knowledge. Another issue we are looking at is drawing some analogies (lessons?) from the way the East/West India' companies use to approach risk, from both perspectives – executives (ship's captains?) versus governance (Company owners? Governors?).

Mythili Kolluru: Dear Pedro, the BoD has a major responsibility to avert corporate fallouts and other challenges. More than mere compliance, an active and holistic approach will be very useful especially during such turbulent times.

Pedro Agua: Dear Mythili, using some modern techniques, we are trying to have a comprehensive approach. However, there are great lessons to take from history, if one just invests the time. For example, the first case of shareholders activism goes back to those maritime merchant companies. I always go back to the creation of Inc. and the relationship with risk. However, after a few centuries, it seems complexity increased a lot and the original idea (Queen Elisabeth of England) may need some refocus or rethinking.

CORPORATE GOVERNANCE AND INTERNAL AUDIT AT GREEK MUNICIPALITIES IN THE COVID-19 ERA

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Abstract

In the public sector, there is a great impact of COVID-19 especially in municipalities that have a direct relationship with society and citizens. Under these circumstances, the principles of corporate governance, and in particular internal control, need to evolve more than ever before to support and guide municipalities all over the world during the period of the COVID-19 pandemic towards good governance, transparency, economic performance, and good results for societies. In Greece, municipalities, and regions are the legal entities under public law that are primarily local government organizations and operate as self-governing entities. The responsibilities and obligations of the 332 municipalities of Greece are determined following article 102 of the Greek Constitution but also of the Municipal and Community Code (Law 3463/2006, Government Gazette A 114/8.6.2006, Ratification of the Code of Municipalities and Communities). In the present study, we analyze the role and the impact of corporate governance by focusing on its part of internal control in municipalities in the area of Serres (Greece) during the period of the COVID-19 pandemic. In fact, we addressed several questions (unstructured live interviews) to eight Greek municipal executives (employees, finance directors, and elected officials).

Generally, the results of the present study show that the Greek state must establish mechanisms, mainly electronic ones, due to

the pandemic, which will lead to transparency and accountability. It must also decide immediately whether the internal audit will be carried out in the municipalities by public bodies or private companies. Specifically, employees of the internal control departments of the LGOs point to the need for distance training and the need to handle public documents electronically. Officials of financial departments note the need to strengthen internal control in municipalities. Elected officials, point out the need to create a central internal audit service per geographic region of the country so that it can advise and guide the internal audit departments of each municipality. Besides, they admit that so far they do not fully use the results of internal control for political decision-making. Last, future extensions of this study could examine a larger sample of municipal executives (employees, finance directors, and elected officials) and specialists from private companies that could include not only municipalities from one region but also from several geographical areas in Greece and within other or larger time frame periods.

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CONFERENCE FORUM DISCUSSION

Dmitriy Govorun: Dear Michail, Andreas, and colleagues! I'm very pleased to read your abstract regarding internal audit in municipalities and corporate governance in light of the COVID-19 era. I agree that the public sector has received great impact due to unevaluated risk like a pandemic. Obviously internal control should be under attention. You state that after receiving replies on questionnaires Greek state has to establish mainly electronic mechanisms of control for greater transparency and accountability. Do we talk about technologies based on blockchain (to handle total transparency) or about a more traditional approach? What are your thoughts also on the following: which corporate governance mechanisms of municipalities should be also reviewed and perhaps changed in terms of the post-COVID-19 era or the only solution is electronic mechanisms of control?

Stergios Galanis: Dear Dmitriy, thank you for your remarks and questions in relation to our extended abstract. Indeed, municipalities are under a lot of pressure during the pandemic. The answers we received from the interviews show that the municipalities in Greece, a member state of the European Union and a member of the Eurozone need to apply technology such as blockchain regarding corporate governance and in particular internal control in order to achieve maximum transparency, good governance, and financial performance. So far, all internal control

applications in municipalities are fragmented and not interconnected. Additionally, regarding your second question, an important area that needs to change is the process of municipal council and audit committee meetings. From the answers, we conclude that after the experience of the era of COVID-19, meetings should be obligatorily broadcast publicly on the internet with the possibility of interaction (i.e., the citizen can comment during the meeting).

Stergios Tasios: Dear authors, this an interesting subject since municipalities in Greece face many problems. Do you plan to supplement your study with a questionnaire?

Stergios Galanis: Dear Stergios, indeed, after the unstructured interviews that we addressed to municipal executives, we are thinking of proceeding to the next stage in the preparation of a questionnaire.

ACCOUNTING FOR INFRASTRUCTURE ASSETS: IS IT NECESSARY A SPECIFIC STANDARD FOR A PUBLIC SECTOR?

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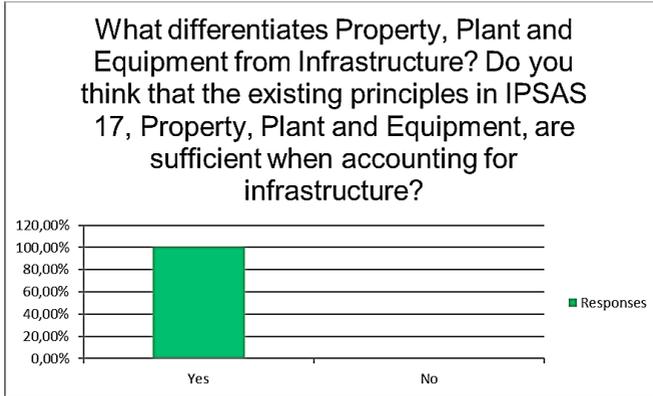
Abstract

On September 17, 2019, the University of Molise and the Parthenope University of Naples have organized the First IPSASB Research Forum, where 111 participants from 16 different nations, representing 34 universities, 17 public sector accounting institutions, and 23 different speakers have opened a new season of intense and targeted cooperation between Academia and the International Public Sector Accounting Standards Board (IPSASB). Among the different themes dealt with during the forum (e.g., public sector measurement; revenues and non-exchange expenditures; heritage assets; public sector specific financial instruments; leases), particular significance has been attributed to 'Infrastructure Assets' with 1) a special section dedicated to this issue (titled: "A brief outline of new projects with direct measurement implications: Infrastructure Assets and Natural Resources") and 2) two specific questions included into the questionnaire submitted to all 111 participants regarding¹:

¹ 12 participants have answered both the questions.

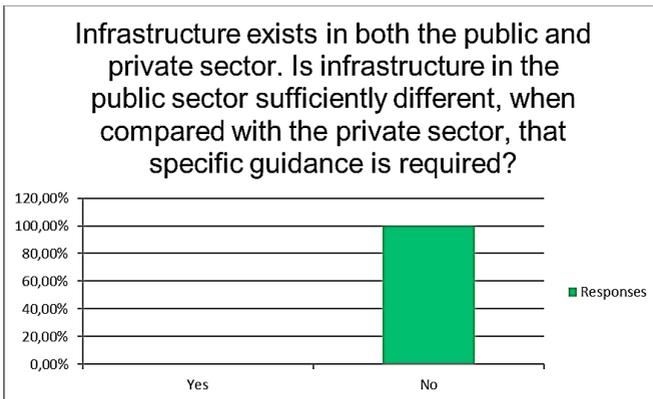
- the peculiarity of infrastructures in the public sector;

Figure 1. The first IPSASB research forum questionnaire: Infrastructure assets – Question 1



- the need for a specific accounting standard for infrastructure in the public sector.

Figure 2. The first IPSASB research forum questionnaire: Infrastructure assets – Question 2



At the IPSASB level, this topic is very actual since mid-2015, when the board approved a project brief on *Infrastructure Assets*, with the explicit purpose to “issue a revised IPSAS 17, Property, Plant and Equipment (or other IPSAS), with additional requirements and/or more detailed guidance on infrastructure assets” (IPSASB, 2015). After a period of inactivity necessary to do “further research” on these specific

issues, in June 2019 the project was reactivated with the aid of a task force aimed at identifying the actual difficulties preparers face when applying the principles of IPSAS 17 to infrastructure assets. According to the roadmap for the last project (discussed at the December 2019 meeting), the approval of the exposure draft is scheduled for June 2020, while the issue of the revisions to IPSAS 17 or the possibility of a new standard on *Infrastructure Assets* is planned for the second semester of 2021.

Investment in infrastructure assets is regarded as the foundation of both sustainable and inclusive development as well as political, social, and economic growth (Choate & Walter, 1981; Rowles, 1992; Burns, Hope, & Roorda, 1999; Romp & De Haan, 2007). In the light of such influence on every community, irrespective of whether it is a small village, a large city, or a whole country, academic literature emphasises that well-designed infrastructure investments create long-term economic and social benefits and positive spill-over effects for the economy (CEB, 2017). In this sense, it seems to be extremely relevant to examine whether and how these specific resources are to be accounted for in the financial statements, especially in the public sector context. Since the second half of the eighties, as a consequence of the changes that interested the public sector accounting structure through a gradual shift from a cash-basis to an accrual-basis accounting system (so-called "new public financial management" (Guthrie, Humphrey, & Olson, 1998; Jackson & Lapsley, 2003) and due to growing concerns over the deterioration of infrastructure (Doyle, 1996; Jamer, 2015), it has been developed an intense debate in the literature regarding the best accounting treatment for this kind of assets (Simpkins & Jensen, 1995; Pallot, 1994; Micallef, Sutcliffe, & Doughty, 1994; Rowles, 1992; Walker, Clarke, & Dean, 2000; Ouda, 2016). Nowadays, after more than thirty years, there is still no convergence in literature and many issues around this specific topic have arisen all over the world (Christiaens, Rommel, Barton, & Everaert, 2012; Lee & Fisher, 2004; Walker & Jones, 2012). In this sense, the study of Walker et al. (2000) is emblematic: the authors review the more applied options found in the literature for accounting and reporting on the public sector infrastructure, identifying even nine different alternatives and suggesting that the optimal mode of reporting should involve "a package of supplementary financial and non-financial disclosures" (p. 123). On the practical side, it is no coincidence that a PwC report from 2014 dealing with the potential impact of implementing accrual accounting in the public sector asserts that, at the central government level, infrastructure assets are one of those items which are less often stated to be recognised in the statement of financial position (PwC, 2014, p. 101); moreover, out of 19 EU Member States whose central governments recognise infrastructure assets, only 8 countries (42%) use IPSASB rules, while 3 governments (16%) use ESA 95/ESA 2010 rules and the remaining 8 States (42%) use another alternative accounting method (PwC, 2014, p. 104).

As a matter of fact, no specific public-sector standard on the accounting treatment of these specific kinds of economic resources exists at the global level and the accounting rules used for ‘tangible capital assets’ are very often extended also to infrastructure assets. This is the case of IPSASB, where the standard that prescribes the accounting treatment for tangible capital assets controlled by public sector entities – namely, IPSAS 17 – states explicitly that: “Infrastructure assets meet the definition of property, plant and equipment and should be accounted for in accordance with this Standard” (IPSASB, 2020, par. 21). A similar approach is found in Canada, New Zealand, and also in Australia, where in addition to the general accounting standard for property, plant, and equipment, there is a standard specifically dedicated to the ‘land under roads’. While the situation is different in the United States, as well as in the continental European states like France and Austria, where within the same accounting standard issued for ‘tangible capital assets’, it is possible to observe specific requirements or guidelines just for “infrastructure assets”.

Within this undefined, fuzzy context, the following imperative words included by European Commission Staff in the 2013 Working Document on the *The suitability of IPSAS for the Member States* have been impactful: “(...) IPSAS 17 is seen as problematic for the accounting and measurement of public infrastructure” (European Commission, 2013). The issue is nowadays open: is it necessary a specific accounting standard for infrastructure assets in the public sector? The game has just begun.

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CONFERENCE FORUM DISCUSSION

Alex Kostyuk: Dear Margherita and Marco, you initiated a discussion about the need for specific accounting standards in the public sector. Your statement that no specific public-sector standard on the accounting treatment of these specific kinds of economic resources exists at the global level and the accounting rules used for 'tangible capital assets' are very often extended also to infrastructure assets, is quite firm and clear. Could you outline the most important reasons for the lack of such sort of accounting standard till this time? What incentives should motivate the public sector to introduce such sort of accounting standards?

Marco Sorrentino: In the public sector, infrastructure assets account for a large proportion of total assets and are a major source of government spending. In this sense, it is emblematic for example that in 2015, the overall investment in infrastructure assets by the government of the United Kingdom was GBP 16.2 billion, representing nearly a third of total government investment that year (Office for National Statistics, 2017); likewise in the United States, just after his election, President Donald Trump announced his intention to rebuild the country's highways, bridges, tunnels, airports, schools, and hospitals, planning to spend USD 1 trillion over 10 years (Gelinas, 2016). In Asia, significant efforts have been made to increase investment in infrastructure, over the past few years, and a peak was reached in 2016 with 552 deals completed for a record USD 131 billion (Plimmer, 2017). More recently, in April 2019, the EU Cohesion Policy invested EUR 4 billion of EU funds (to which another EUR 4 billion must be added in national co-financing) in 25 large infrastructure projects for 10 Member States, covering a wide range of areas such as health, transport, research, the environment, and energy. In this respect, the EU Commissioner for Regional Policy, Corina Crețu, declared that those 25 projects were as many examples of how the EU is working to improve everyday life for its citizens from better drinking water to faster rail transport and modern hospitals, highlighting how, in the current budget period, she had adopted 258 large infrastructure projects worth EUR 32 billion of EU funds (European Commission, 2019).

Alex Kostyuk: I see your logic entirely, Marco. I would like just to proceed further. My point of view is about a possible positive impact of specific accounting standards on the degree of transparency of public spending. Also, it could prevent such negative issues as corruption, self-dealing, and conflict of interest in the process of decision making.

Marco Sorrentino: Yes Alex, this is a really very interesting point of view!

Alex Kostyuk: I expect, Marco, that such influence of specific accounting standards is absolutely possible to happen in the developing countries, and even in developed (as for the issue of self-dealing in decision making by public servants).

BANK RISK GOVERNANCE IN NIGERIA IN THE CONTEXT OF THE BASEL PRINCIPLES ON ENHANCING CORPORATE GOVERNANCE

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Abstract

The overall purpose of the study was to examine the extent to which the 2014 Central Bank of Nigeria (CBN) Corporate governance codes for banks and discount houses complied with the 2015 Basel Committee on Banking Supervision (BCBS) bank governance principles.

This is particularly an important subject given that Nigeria had been implementing the Basel Accords for over a decade. One other reason why this study is germane is that there had been no such previous study in Nigeria.

Effective corporate governance is considered critical for the proper functioning of the banking system and the economy as a whole. It is of vital concern to banks themselves as well as to bank regulators.

Corporate governance of banks is largely "concerned with reducing the social costs of bank risk-taking and that the regulator is uniquely positioned to balance the relevant stakeholder interests in devising governance standards for financial institutions that achieve economic development objectives while minimizing the externalities of systemic risk" (Kern, 2006, p. 18).

There are two special attributes of banks that make them special in practice: greater opaqueness than other industries and greater government regulation.

The Organisation for Economic Co-operation and Development (OECD) had issued a set of corporate governance standards and guidelines to help governments "in their efforts to evaluate and improve the legal,

institutional and regulatory framework for corporate governance in their countries and to provide guidance and suggestions for stock exchanges, investors, corporations and other parties that have a role in the process of developing good corporate governance" (OECD, 2004, p. 2).

The BCBS published a paper in September 1999 to reinforce the importance for banks of the OECD principles and to draw attention to corporate governance issues addressed in previous Committee papers and to present some new topics related to corporate governance for banks and their supervisors to consider.

The BCBS then issued an updated set of principles for enhancing corporate governance in the banking sector in 2006 and 2010. The purpose of the principles is to assist banking organizations in enhancing their corporate governance guidelines and banking supervisors in evaluating the quality of those guidelines.

Over the years, the BCBS has produced four increasingly detailed documents to guide the governance of banking organizations (BCBS, 1999, 2006, 2010, 2015).

BCBS (2010) consists of 42 pages with 14 principles. Within those 14 principles, there are 129 specific recommendations. It represents a departure from previous guidance due to the new understanding of risk governance and culture.

In 2012, the BCBS issued another set of principles to enhance corporate governance within the banking sector. The BCBS principles assume the application of OECD principles and then add to them where a need appears for additional and specific focus for banks and bank supervision.

In 2014, the BCBS undertook a revision of the 2012 principles. The drivers for change in corporate governance guidance were the work done in corporate governance development by others, such as OECD, the Group of Thirty, and the Institute of International Finance.

The BCBS (2015) principles was a response to a need for an all-inclusive approach to risk: risk culture, risk appetite, risk competence, and alignment of compensation with risk and contained 328 principles and cover various topics concerning the governance of banks with a strong focus on risk management.

These principles provide recommendations that can be clustered into four main blocks: (risk) governance, independent internal control, external control, and supporting factors. The latest code of corporate governance for banks and discount houses in Nigeria was issued by the CBN on May 16, 2014, which became effective on October 1, 2014 (CBN, 2014).

In this study, we evaluated the CBN (2014) code against the fourteen governance principles in the BCBS (2010) corporate governance principles using the framework of Wright, Sheedy, and Magee (2016). We thought it would be inappropriate to conduct this evaluation against the BCBS (2015) principles since the CBN code was non-existent at the time.

Our results showed that certain types of principles were more comprehensively adopted than others giving an overall moderate coverage of the BCBS principles. The table below provides a summary of our results.

Table 1. Nigeria’s extent of adoption BCBS bank governance principles

S/N	BCBS (2010)	CBN code (2014) rating
1	The board has overall responsibility for the bank, including approving and overseeing the implementation of the bank’s strategic objectives, risk strategy, corporate governance, and corporate values. The board is also responsible for providing oversight of senior management.	2
2	Board members should be and remain qualified, including through training, for their positions. They should have a clear understanding of their role in corporate governance and be able to exercise sound and objective judgment about the affairs of the bank.	2
3	The board should define appropriate governance practices for its own work and have in place the means to ensure that such practices are followed and periodically reviewed for ongoing improvement.	2
4	In a group structure, the board of the parent company has the overall responsibility for adequate corporate governance across the group and ensuring that there are governance policies and mechanisms appropriate to the structure, business, and risks of the group and its entities.	2
5	Under the direction of the board, senior management should ensure that the bank’s activities are consistent with the business strategy, risk tolerance/appetite, and policies approved by the board.	2
6	Banks should have an effective internal controls system and a risk management function (including a chief risk officer or equivalent) with sufficient authority, stature, independence, resources, and access to the board.	2
7	Risks should be identified and monitored on an ongoing firm wide and individual entity basis, and the sophistication of the bank’s risk management and internal control infrastructures should keep pace with any changes to the bank’s risk profile (including its growth), and to the external risk landscape.	2
8	Effective risk management requires robust internal communication within the bank about risk, both across the organisation and through reporting to the board and senior management.	2
9	The board and senior management should effectively utilize the work conducted by internal audit functions, external auditors, and internal control functions.	2
10	The board should actively oversee the compensation system’s design and operation and should monitor and review the compensation system to ensure that it operates as intended.	2
11	An employee’s compensation should be effectively aligned with prudent risk-taking: compensation should be adjusted for all types of risk; compensation outcomes should be symmetric with risk outcomes; compensation payout schedules should be sensitive to the time horizon of risks; and the mix of cash, equity and other forms of compensation should be consistent with risk alignment.	1
12	The board and senior management should know and understand the bank’s operational structure and the risks that it poses (i.e., ‘know-your-structure’).	3
13	Where a bank operates through specialpurpose or related structures or in jurisdictions that impede transparency or does not meet international banking standards, its board and senior management should understand the purpose, structure, and unique risks of these operations. They should also seek to mitigate the risks identified (i.e., ‘understand-your-structure’).	1
14	The governance of the bank should be adequately transparent to its shareholders, depositors, other relevant stakeholders, and market participants.	2

Future research should focus more on the extent to which individual financial institutions are able to comply with the Basel bank corporate governance principles. Future reforms in Nigeria should be to ensure that Banks' risk governance codes align closely with the BCBS bank corporate governance principles.

We assess international compliance with the BCBS (2010) guidance on the governance of banking organisations. Based on an extensive examination of regulatory documents in selected advanced economies, we find that reform is incomplete in jurisdictions most affected by the financial crisis, and with the largest financial centres. In contrast, other countries less affected by the financial crisis have enacted risk governance reforms as protection against potential future contagion. We provide insights for policy-makers charged with improving governance at banks, and a richer understanding for international regulators as they revise the guidelines and aim for greater compliance at the national level.

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CONFERENCE FORUM DISCUSSION

Tariq Ismail: I have read your paper which is interesting where it contributes to the literature related to the Nigerian setting. I do encourage you to study the governance mechanisms, capital adequacy, and its impact on bank risk in Nigeria.

Shab Hundal: Dear Emmanuel, you have pointed out “opaqueness”, which is a very important aspect of banking governance. I hold the opinion that when you see the balance sheets of banks, the degree of opaqueness is not the same on both assets and liabilities/equity side. Since it is the duty of the board of directors to prepare the financial statements, therefore, it can be interesting what regulators in Nigeria say about it when they mandate the duties of boards of directors. In case the regulators give very generic guidelines

(highly likely), then it will be an interesting research problem to be explored empirically.

Emmanuel Abolo: Dear Shab and Tariq, I thank both of you immensely for your contributions to my paper. I am encouraged. Please note that I have taken careful note of your contributions and would work hard to incorporate them in my future research work.

Alex Kostyuk: Dear Emmanuel, I suppose that the effectiveness of bank regulation in developing countries depends also on the structure of the ownership of banks and the type of majority shareholders. Is this a case of Nigeria? What ownership type is dominating in banks in Nigeria recently (state-owned, individual, institutional, non-residential, etc.)? Does the ownership type influence corporate governance reform progress in Nigeria?

Emmanuel Abolo: In Nigeria, the laws are quite clear on the ownership structure of banks which are in line with global best practices. For instance, The Chairman cannot be the CEO at the same time while the tenure of the CEO is pegged at 10 years max. Apart from the DFIs, banks are owned by private groups/individuals, with some owned by foreign entities or as subsidiaries. Corporate governance in Banks is driven by the regulator, the CBN.

Alex Kostyuk: Thank you for the insight, Emmanuel. The banking system of Nigeria is quite unique with regard to ownership. Privately owned Nigerian banks hold 94% of banking assets in Nigeria and this is the world's second largest share of local ownership. It seems to me that ownership type is a dominant influencer of the corporate governance practices (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3001552).

Emmanuel Abolo: Thank you very much, Alex, for the insight and perspective. It all boils down to the confidence of foreign investors in the Nigerian banking space and the regulations guiding foreign ownership of Banks. The issue of repatriation of profits has always been a rather thorny one for foreign investors as well as the laws requiring certain percentage ownership by Nigerians in banks owned by foreign investors. Let me also state that prior government policies towards both foreign and Nigerian banks resulted in changes in market structure and competitive dynamics that were conducive to capability development by Nigerian banks whose strength affected negatively the interest of foreigners. The Central Bank of Nigeria (CBN) has also set fresh hurdles for foreign banks desirous of merging with or acquiring any of the existing local banks in the country. Under the new regulation, any foreign bank coming into the country to acquire a banking license and wants to merge with or acquire any of the local banks must have operated in Nigeria for at least five years. And if a group of foreign institutions decides to invest in any of the local banks, the aggregate investment must not be more than 10 percent of the latter's total capital. In a situation where a single foreign investor invests in a local bank, such investment may not exceed the holding of the largest Nigerian

shareholder. Moreover, to qualify for the merger or acquisition of any of Nigeria's local banks, the foreign bank must have achieved a spread of two-thirds of the states of the federation. This, in a nutshell, means that the foreign bank must have branches in at least 24 out of the 36 states of Nigeria. If we put all of these together, it becomes clearer why we have few foreign banks in Nigeria. More like the “Nigerianisation” of Nigeria banking space.

Alex Kostyuk: Now, I see that the main critical issue is not only about corporate governance in banks in Nigeria. It is about a wise mix of both corporate governance and bank supervision (by the Central Bank of Nigeria) to attract investors to invest in banks of Nigeria in the long-run and reinvest profits within the bank system of Nigeria too. The 10 percent limit for investors as for the share of their ownership in banks in Nigeria set by the Central Bank of Nigeria is a partial recognition by the Central Bank of the lack of effective corporate governance and bank supervision instruments.

Alex Kostyuk: You mentioned in your paper that the CBN issued a Code of Corporate Governance for Banks in Nigeria in April 2006, specifying the number of governance thresholds. What thresholds have been successfully achieved since that time by banks in Nigeria and what thresholds have been failed?

Emmanuel Abolo: You are right. Corporate governance in banks in Nigeria works within the framework of regulations and supervisory objectives. It is a blend of governance, risk management, and compliance.

ASSOCIATION BETWEEN REWARDS AND EMPLOYEE PERFORMANCE: AN EMPIRICAL RESEARCH ON OMANI BANKS

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Abstract

The current paper aims to explore the association between rewards and employee performance in the Oman banking sector. This study evaluates data of 500 bank employees across 18 listed banks in the Sultanate of Oman. A theoretical framework is discussed to evaluate the effects of rewards on employee performance. The outcomes are examined using factor analysis, structured equation modeling, and multivariate analysis of variance. The results of this study provide key insights into how companies can adopt effective reward management to sustain and compete in the dynamic business landscape and modulate performance management in Omani banks. Overall, a statistically significant association between the rewards system and employee performance in the listed banks in Oman is established in this study. The study further underscores the need to design and evolve employee-centric policies to get optimum performance. It also offers guideposts for managers and policy planners working in the banking sector of the Middle East countries to evolve holistic policies to succeed in stiff, cut-throat competition and ensure participatory management for best performance. Herein, extrinsic, and intrinsic rewards are studied in relation to their impact on the performance matrix. A proper insightful reward management system may lead to optimum performance, better outcomes, and a strong financial system.

1. INTRODUCTION

Human resources are the most essential tangible assets in any organization and can make or mar the growth trajectory of a company. Satisfied and well-rewarded personnel can certainly catapult an organization's growth rate. Hence, it becomes a strategic imperative to invest in employees. Reward management systems influence and increase employee performance. Well-articulated reward management may significantly affect the organizational ability to source, maintain, and drive employees to high-performance levels. The purpose of reward systems is to ensure that employees work towards achieving strategic goals. Aktar (2012) in his study highlighted that rewards are a significant way to encourage employees to put their best efforts and create innovative ideas that enhance organizational performance, both financially and non-financially. Top management and researchers consistently work toward increasing employee retention. The relationships between staff and customers are a vital indicator to measure customer satisfaction and dissatisfaction. This kind of study is more important for the banking sector as one can comprehend how to influence bank performance and customer base. The development and growth of the banking sector are pivotal for a stable and resilient financial system. Several studies demonstrated a positive correlation between rewards and employee performance. However, there is a lack of unanimity on the nature and extent of rewards directly contributing to increased performance. The practitioners, scholars, researchers, and HR professionals are focused on striking a delicate balance between rewards and performance and establish the association between rewards and performance. The identified research gap necessitates further studies on rewards and performance in various sectors and different contexts in different settings. The results of this study provide key insights into how companies can adopt effective reward management to sustain and compete in the dynamic business landscape and modulate performance management in Omani banks. Overall, a statistically significant association between the rewards system and employee performance in the listed banks in Oman is established in this study.

2. METHODOLOGY

The current paper aims to explore the association between rewards and employee performance in the Oman banking sector. This study evaluates data of 500 bank employees across 18 listed banks in the Sultanate of Oman. In this study, employees of 14 local, 2 Islamic (Alizz Islamic Bank, Ahil Bank), and 2 specialized (Oman Housing Bank and Oman Development Bank) banks were studied for one year. A theoretical framework is discussed to evaluate the effects of rewards on employee performance. The principal component analysis (PCA), factor analysis,

structured equation modeling (SEM), and multivariate analysis of variance (MANOVA) using SPSS and R Studio programming were used in this study. Principal component analysis (PCA) dimensionality reduction method. Cronbach Alpha and Kaiser-Meyer-Olkin (KMO) were employed to test the data set's reliability and internal consistency. As there is limited literature in the aspect of extrinsic and intrinsic rewards in the Oman banking sector, a research gap was observed for which three hypotheses were formulated and validated.

3. FINDINGS

Factor analysis and reliability analysis demonstrated sample size adequacy. In terms of the statistical test results, the first hypothesis was supported through a multivariate analysis of variance. The findings showed that extrinsic rewards have a positive impact on employee performance. The findings are like those in previous studies by Mahaney and Lederer (2006), Mottaz (1985). The second hypothesis was also supported through a multivariate analysis of variance. Intrinsic rewards are shown to have a positive impact on employee performance. The last hypothesis was supported by factor analysis and structured equation modeling. A strong correlation between extrinsic and intrinsic rewards was observed in this study. The results of the study are consistent with findings in several previous studies.

4. CONCLUSION

The existence of rewards and their management is vital for practitioners and stakeholders associated with organizations. This is vital as rewards influence the performance, which in turn influences the achievement of organizational strategic purpose and vision. After an analysis of the impact of extrinsic and intrinsic rewards on employee performance, it is suggested that the bank managements may design their respective reward management system by aligning it with the organizational vision. Effective reward management leads to high employee performance and ensures a competitive advantage in the banking sector. However, this study had some limitations as it evaluated employees in one sector only. The outcome could have been influenced by the specific social, cultural, and socio-economic environment of the Middle East hence may limit the potential scope of generalization. It can be concluded that for future studies, the mediating role of intrinsic and extrinsic rewards in motivating the employees may be investigated. The scope of the survey can also be extended to include other sectors. A study on the demographic characteristics and rewards on employee performance may be evaluated.

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CONFERENCE FORUM DISCUSSION

Alex Kostyuk: Dear Mythili, thank you for your contribution. I think that you empirically tested the link between employee reward (remuneration) and employee performance. I find it important to ask you if you see the link between the ownership type of the banks in Oman (state-owned, individual owned, institutional owned, non-resident owned, etc.) and the link between the employee reward and employee performance?

Mythili Kolluru: Dear Alex, thank you for reading my research. In Oman, there are 18 banks. Mostly all the banks come under the regulations of the Central Bank of Oman (CBO). Any non-resident or international bank will form an alliance with a local to start any business in Oman. Still, your point is valid, this is a good observation from you. Though no I have included it in my study I can include for future research. The performance is measured and the impacts of rewards on performance are included in the study.

Alex Kostyuk: Thank you, Mythili. I expect that my proposal mentioned above concerning an attempt to divide the sample of the banks by the type of ownership could allow you to get new very useful results, interesting both for shareholders of banks and Central Bank as a regulator.

Mythili Kolluru: Yes Alex, I did not think of this perspective. It could show varied results as there would definitely be variations in the banks' reward management system. Though in Oman there are a lot of similarities across companies in the same industry as especially

the banking sector is tightly regulated and monitored. Never less, your point is valid and worth the research. Thanks for the suggestion.

Khaled Otman: Dear Alex, it is a good point especially if this study uses the four ownership types as control variables. It will be a good contribution to research.

Mythili Kolluru: Dear Khalid, thanks for the feedback. Actually, the main purpose of the research was to evaluate the influence of rewards on employee performance across the 18 licensed foreign and local commercial banks and the Islamic and specialized banks.

CORPORATE GOVERNANCE: HOW SOCIAL NORMS AND CULTURAL VALUES CHANGED DURING COVID-19?

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Abstract

At an international level, we are witnessing a process of rapprochement between the company and society generated by the increasing attention to the issues of ethics and social responsibility. The company must adopt ethical behavior which means not only to comply with the law but also to establish a correct relationship with the environment, adopt policies that respect the individual, and more generally play a positive role in the economic and social context in which it operates. The corporate mission itself is no longer based on a static vision of profit, understood as the sole purpose of social activity, but by evolving it interprets not only economic but also social and environmental objectives. It is of fundamental importance for the company to meet not only the short-term objectives of those who have contributed risk capital but the expectations of the various stakeholders who in the company become the protagonists in the foreground of each phase of social activity. The responsibility of the company is therefore concretized in the creation of value for all stakeholders in the awareness that their satisfaction favors a relaxed and serene atmosphere allowing establishing a relationship of mutual trust and collaboration essential for the pursuit of the common good. In short, a socially responsible company is the one that transfers its goal from or almost all U.S. public companies, COVID-19 has created unique and very profound challenges. For the board of directors, which is charged with overseeing the short-term and long-term health of the corporation and its business prospects, navigating the COVID-19 crisis requires careful consideration of a range of issues under these

unprecedented circumstances. This post outlines several corporate governance issues for directors to consider as their companies respond to the challenges and risks posed by the COVID-19 pandemic.

1. INTRODUCTION

As a general matter, directors of a Delaware corporation have a responsibility to oversee the business and affairs of the corporation, which requires that directors make a good faith effort to put in place a reasonable board-level system of monitoring and reporting. The Delaware courts, in a line of cases beginning with *In re Caremark Int'l Inc. Derivative Litig.*, have found that a failure of director oversight would occur 1) if directors failed to implement any corporate reporting or information systems or controls or 2) if such a system or controls were implemented, the directors consciously failed to monitor or oversee the company's operations, thus removing themselves from being informed of material risks or problems requiring their attention.

2. MONITORING AND OVERSIGHT RESPONSIBILITIES OF DIRECTORS POST COVID-19

As a general matter, directors of a Delaware corporation have a responsibility to oversee the business and affairs of the corporation, which requires that directors make a good faith effort to put in place a reasonable board-level system of monitoring and reporting. The Delaware courts, in a line of cases beginning with *In re Caremark Int'l Inc. Derivative Litig.*, have found that a failure of director oversight would occur 1) if directors failed to implement any corporate reporting or information systems or controls or 2) if such a system or controls were implemented, the directors consciously failed to monitor or oversee the company's operations, thus removing themselves from being informed of material risks or problems requiring their attention. In light of director oversight responsibilities and as a matter of good corporate governance, some specific active steps for boards to consider in response to COVID-19 include the following:

1) Enhancing the company's existing reporting and information systems that are used by the board to provide oversight. Such a system would help ensure that the board is able to receive relevant information in a timely manner to monitor COVID-19 issues and their potential risks to and effects on the company. Once a system is implemented, a board should be active in its monitoring of significant issues so that it stays informed of material business risks and red flags resulting from the COVID-19 pandemic.

2) Forming a committee. A possible tool available to a board to address its monitoring and oversight responsibilities is to create a committee that could be tasked with evaluating and, if necessary,

adopting any available preventative and ameliorative measures regarding the impact of COVID-19 on the company's operations and affairs. Timely and sufficiently detailed minutes and resolutions should document the proceedings of the committee and provide evidence of the activities conducted, matters considered and decisions made by the committee. If, after due consideration, the committee declines to adopt any measure considered, clear, contemporaneous committee records would then be used to support a showing of good faith in the committee's efforts to evaluate such measure.

3) Enhancing communications with company management. A board should consider increased and sustained open dialogue with company management on both the business risks and the workplace health and safety issues posed by COVID-19. Boards and management should review legal and regulatory developments regarding COVID-19 at both the federal and state levels, review the company's risk-mitigation policies and protocols and adjust such protocols as necessary to conform to developing regulatory circumstances (especially if a particular regulatory scheme relates to activities that are core to the company's operations) and meet frequently to discuss the foregoing. Boards should be clear in their instructions to management as to the board's expectations with respect to management's responsibility to report to the board regarding COVID-19 matters.

4) Confirming the feasibility of the company's disaster plan. The disaster plan should address matters such as employee availability, the functionality of IT systems, cybersecurity, communication protocols, and legal/regulatory compliance. Due to the unique nature of COVID-19, the board, as part of its ongoing monitoring and oversight responsibilities, should continue discussing any implementation issues with management and evaluating whether any modifications to the disaster plan are necessary to deal with new issues as they arise.

5) Evaluating potential disruptions to operations and business relationships. This evaluation may include ensuring that management is appropriately considering:

- the impact of COVID-19 on key customers, suppliers, financing sources, and service providers and review of key contracts to identify any potential issues relating to force majeure, triggers for defaults and termination rights, and related contract terms;
- the ability of the company to access any emergency government funds or other programs initiated in the wake of the COVID-19 crisis;
- the adequacy of the company's insurance coverage and whether proper steps are being taken to preserve any potential claims.

6) Assessing key areas where there is additional risk and probabilities for their occurrence. While the hope is that the COVID-19 crisis will become more manageable by the third quarter of 2020, consideration should be given to additional steps that might be required if the impact of COVID-19 is prolonged. The board should also consider

the feasibility of implementing these steps under different scenarios given the possibility of fewer resources being available, increased health and safety regulations, supply chain issues, availability of financing sources, and customer situations.

7) Reviewing board and management succession plans. Key officers of both large and small companies have already fallen ill with COVID-19. Boards should consider implementing a detailed emergency succession plan that takes into account the unavailability of directors, officers, and key managers of the company. The board should consider establishing a COVID-19 transition team that serves as the governing body to carry out necessary changes in company leadership. The transition team can help clearly define the responsibilities and roles for acting management and coordinate directors' supervision and support of persons in acting management roles. In extreme circumstances, boards may consider adopting emergency bylaws that would become operative during an emergency (e.g., pursuant to Section 110 of the Delaware General Corporation Law). Such emergency bylaws can provide a list of officers or other persons designated on a list approved by the board that will be deemed directors for special meetings called pursuant to the emergency bylaws.

8) Retaining additional advice where needed. Due to the rapidity of developments regarding unique COVID-19 issues and the limitation of internal resources, a board should consider if the company needs additional assistance and retain outside advisors where necessary. An effort to consult with outside advisors can help demonstrate a board's good faith effort to be and stay informed throughout the COVID-19 crisis.

9) Reassessing long-term corporate strategy. Undoubtedly, COVID-19 pandemic has brought new and unique challenges to most businesses. Focusing on the critical functions of a company certainly takes priority for a board. However, once the critical areas of need are addressed, the board may want to consider the implications for longer-term corporate strategies in light of the changing environment caused by COVID-19. These may include cultivating new alliances, developing more innovation and technology, growing through acquisitions (or disposing of non-core assets or businesses), exploring lower-cost financing structures, developing new employee benefit plans, and evaluating real estate needs. Some of these issues are discussed in more detail below.

3. LIQUIDITY AND CAPITALIZATION CONSIDERATIONS POST COVID-19

One key area of focus during the COVID-19 pandemic is liquidity. Given the unexpected, and extremely rapid, the onset of the crisis, most companies did not foresee the dramatic slowdown of the global economy. Accordingly, as part of their general oversight duties during

the pandemic, directors should receive periodic updates from management with respect to the company's liquidity and capital considerations and ensure any issues in this regard are being addressed. This includes understanding the impact of the crisis on the company's cash flow, whether there are upcoming maturities of outstanding indebtedness that need to be considered, and the likelihood that financial covenants will be maintained.

One specific topic for directors to consider in this regard is whether to suspend the company's ordinary dividend or pre-existing stock buyback program to preserve cash. This typically entails weighing a variety of factors, such as potential downward pressure on the company's stock price that may result from suspending the dividend and the benefit to the company of buying back its shares when the price is relatively low. We do note that influential proxy advisory firm Institutional Shareholder Services (ISS)¹ recently issued guidance in advance of the 2020 proxy season suggesting that boards may open themselves up to “intense criticism and reputational damage” if they undertake share repurchases under the current circumstances. ISS was less critical, however, about potential changes to a company's approach to dividends saying that boards should have “broad discretion” in this regard.

If a decision is made to suspend an ordinary dividend, advice should be sought from counsel with respect to the timing of the announcement of that decision relative to the next dividend record date. Moreover, if a company wants to not pay a dividend that the board has already declared, further legal considerations are necessary.

4. EXECUTIVE COMPENSATION MATTERS DURING COVID-19

As the COVID-19 crisis emerged, many companies were either in the process of or had just completed the process of, setting performance targets and metrics for the current performance period (both with respect to long-term and short-term arrangements, such as performance equity and annual bonuses). In addition, performance relating to awards granted in prior years can be seriously adversely affected by the ongoing pandemic and as a general matter, granting equity awards when a company's stock price is suppressed (requiring more shares to provide the same value) could result in depletion of the share reserve under the company's equity plan, thus reducing the ability to make future grants. Therefore, if the process is not yet complete, companies should consider waiting to finalize the targets and metrics until the market and other business conditions stabilize so that the targets that are set will more likely reflect the proper incentives and goals for executives in the new “post-pandemic” business climate. Most companies reserve

¹ <https://www.issgovernance.com/>

the right to change targets and metrics. Thus, if the targets have been set, companies may want to exercise discretion to make changes but, as with situations where the targets have not yet been set, it may be appropriate to wait to decide what changes should be made until the market and other business conditions stabilize.

In addition, as a result of the pandemic, some companies have considered (or implemented) pay reductions either on a case by case basis or across the executive ranks. Consideration should be given to the effect of such reductions on various executive arrangements. For example, certain arrangements, such as employment agreements and severance arrangements may have “good reason” provisions that are triggered by reductions in base pay. This could provide an executive with the ability to terminate service and receive a generous severance package. In addition, a salary reduction could have a negative effect on an executive’s golden parachute tax calculations in the event of a future change in control, as golden parachute taxes are based on an average of five years of compensation such that a salary reduction will reduce the average and increase the amounts that may be subject to golden parachute taxes.

Finally, some companies that previously granted stock options or stock appreciation rights (SARs) have considered repricing those awards in light of market performance. Repricing stock options or SARs includes either lowering the exercise or base price, substituting the award with a new award with a lower exercise or base price, and/or cancelling the award for another type of award or cash. Almost all equity plans of public companies have prohibitions on repricing of stock options or SARs without stockholder approval. In addition, the repricing of an underwater stock option or SAR would most likely be treated as an extension of the award and would have serious negative implications under Section 409A of the Internal Revenue Code.

5. CONCLUSION

Many public companies are experiencing a dramatic fall in their stock price in light of the global financial turmoil that has become an unwelcome byproduct of the COVID-19 crisis. It is prudent for boards of companies experiencing a significant decline in stock price to consider the company’s takeover preparedness and whether any steps should be taken in response to the vulnerability to hostile activity resulting from a depressed stock price.

If a board typically considers takeover preparedness on an annual basis, that board should consider whether it makes sense to accelerate that analysis this year given the changes in circumstances due to COVID-19. If a board does not consider takeover preparedness on a regular basis, that board should consider adding this topic to an upcoming agenda.

In the context of reviewing the company’s takeover defenses and preparedness, a board should consider whether to enlist the assistance of outside advisors. For one, an investment bank may be able to provide the board with useful market intelligence, views on the likelihood that the company would be a takeover target, and particular insight into market changes happening in real time due to the effects of the COVID-19 pandemic. Similarly, outside counsel could provide a summary of current structural defenses that are in place and whether adding additional defences at this time may be prudent and feasible.

One specific takeover defense that a board may consider under these circumstances is a shareholders’ rights plan, also known as a “poison pill.” While many public companies have a “pill on the shelf” so that they are prepared to quickly implement a rights plan if the situation warrants, the COVID-19 crisis has resulted in a recent uptick in public companies putting shareholder rights plans in place both to protect against a hostile activity as well as to, in certain cases, protect tax assets that could be impacted by shifts in ownership resulting from volatility in the companies’ stock. As there are various issues for a board to consider in determining whether to put a shareholder rights plan in place (and if so, the terms of such plan), a board would typically enlist the assistance of an investment bank and outside counsel to assist with this analysis. One particular issue for a board to consider is the duration of the rights plan, with shorter duration plans (e.g., one year) designed to address only the current crisis likely to draw less scrutiny from shareholders and proxy advisors than longer duration plans. In this regard, we note that the recent ISS guidance contained a softening of ISS’ traditional position on pills, suggesting that the “COVID-19 pandemic is likely to be considered valid justification in most cases for adopting a pill of less than one year in duration” (BMO, 2020).

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CONFERENCE FORUM DISCUSSION

Alex Kostyuk: Dear Francesco, you are welcome to our conference forum. Reading your paper I found that you consider the issue of executive compensation during the recent pandemic. Recently, many researchers do their utmost to outline a new horizon in the field of research as the pandemic influences compensation policies of the companies worldwide a lot. What do you think about the future profile of executive compensation worldwide? What sorts of compensation instruments will dominate (equity or cash-based), long-term or short-term, etc.?

Hadfi Bilel: The importance of governance and especially the presence of a good quality audit to control the situation of companies especially in this period of crisis and lack of liquidity for all companies.

Francesco Di Tommaso: One specific takeover defense that a board may consider under these circumstances is a shareholder rights plan, also known as a "poison pill". While many public companies have a "pill on the shelf" so that they are prepared to quickly implement a rights plan if the situation warrants, the COVID-19 crisis has resulted in a recent uptick in public companies putting shareholder rights plans in place both to protect against a hostile activity as well as to, in certain cases, protect tax assets that could be impacted by shifts in ownership resulting from volatility in the companies' stock. As there are various issues for a board to consider in determining whether to put a shareholder rights plan in place (and if so, the terms of such plan), a board would typically enlist the assistance of an investment bank and

outside counsel to assist with this analysis. One particular issue for a board to consider is the duration of the rights plan, with shorter duration plans (e.g., one year) designed to address only the current crisis likely to draw less scrutiny from shareholders and proxy advisors than longer duration plans. In this regard, we note that the recent ISS guidance contained a softening of ISS’ traditional position on pills, suggesting that the “COVID-19 pandemic is likely to be considered valid justification in most cases for adopting a pill of less than one year in duration”. Especially, in a public company where the level of crises is very high.

CORPORATE GOVERNANCE AND NEW PUBLIC MANAGEMENT IN GREEK TAX AUTHORITY: THE COVID-19 EXPERIENCE

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Abstract

Corporate governance in the public sector is distinguished from the private sector by the different law framework and different organizational structure of public organizations, while there is a significant objective diversity and management techniques. At the beginning of the 1990s, the corporate governance of the public sector was introduced and further discussed to solve problems in the public sector mainly for the potential lack of accountability.

Also, in the 1990s the new public management (new fiscal governance) was introduced to support the performance measurement in public services, flexibility in the execution of the public budgeting, and its orientation on a decentralized basis. Effective administrative mechanisms and the appropriate procedures for the preparation and implementation of effective taxation policies are now a modern requirement. Based on the European experience, the countries that were able to implement realistic targets for public revenues and budgets (objectives that are being implemented) and managed to consolidate their public finances, made significant changes in public organization structures, while the emphasis is now placed on expenditure results

instead of revenue inputs. In Greece, Law No. 3871/2010 is considered as the basis for the implementation of the principles of new public management.

In the last year, the European Union, to remedy the root cause of the financial crisis and improve fiscal governance, particularly in the Eurozone, decided to further strengthen its legal requirements for national budgetary frameworks. The basic target was to better monitor member states their public budgets, according to a report from the European Court of Auditors (ECA). For this reason, the European Commission, to complement the EU fiscal framework with binding national provisions, has required the member states to set up new national fiscal rules and independent fiscal institutions (IFIs).

The Greek Government aligned its tax policy to these guidelines with the Independent Authority for Public Revenue (IAPR) for the collection of public revenues in Greece and several other laws. One of the main goals of IAPR is to change the philosophy of its transactions with the citizens and business entities and to provide tax services electronically, especially in what is directly related to the citizen. Thus, to eliminate the necessity of the presence of the taxpayer in the tax offices and moving towards the complete digitization of the procedures, but also of the infrastructures of the tax services, IAPR makes a continuous effort so that the citizen can be served electronically and from his home for all the public tax services (without going in the public tax offices). The Greek minister for the organizational function of IAPR stated that the goal is to automate and electronically apply a series of procedures.

The present study focuses, regarding the above-referred issues, in the period the COVID-19 on public sector function and reengineering processes in Greece during the last months, with special attention on the Greek tax authority (IAPR). We have tracked and analyzed several organizational procedures and changes compatibles with the corona-virus threat that were adopted in the public sector and in particular the role and design of procedures of IAPR.

The results of our study provide strong evidence that the function of IAPR eliminated the necessity of the presence of the taxpayer in the tax offices, as provided many transactions electronically with the citizens and business entities in tax services and with no risk for the COVID-19. Also, Greek tax authorities have established better monitoring for national budgetary frameworks and putting into action the accountability for outcomes more independently. The latter is one of the basic targets of corporate governance in the public sector and the new public management, as well as of the European Union and the Greek Government. Furthermore, as the need for effective taxation policies and procedures is essential (especially in crisis eras as the COVID-19 period), IAPR implemented teleworking for a part of its employees, stretching the flexibility in the execution of the public budgeting and boosting

the orientation on a decentralized basis of tasks and activities. Also, teleworking has eliminated the board meetings on tax issues and thus, has encouraged on-line meetings and communication.

Last, future extensions of this study could examine available data on public revenues and efficiency, which in the period of the present study are not available. The comparison of public revenues data and characteristics among European Union states will also be useful for future research.

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CONFERENCE FORUM DISCUSSION

Alex Kostyuk: Dear Nikolaos and colleagues, welcome to our conference forum. Corporate governance and public management can be considered as a new alloy of corporate governance research. I agree absolutely. You pointed out in your paper that the Greek tax authority has established better monitoring for national budgetary frameworks and putting into action the accountability for outcomes more independently and the latter is one of the basic targets of the corporate governance in the public sector and the new public management. I see that you fixed the principle of accountability as the most important principle of corporate governance in this context. Could you explain your vision of further research in this field?

Michail Pazarskis: Dear Alex, in our paper we have tracked several organizational procedures and changes compatible with the corona-virus threat that were adopted by the Greek tax authority (IAPR). We have tried to analyze the function of IAPR, with its reengineering processes (teleworking, on-line meetings, etc.), which during the last months were implemented obligatorily. Our vision for future research is to examine available data on public revenues and efficiency of these changes, by comparing the previous situations in public revenues and cost of the function of IPRA, but in this period of the present study are not available (available data stop on March 2020, see here: <https://www.aade.gr/menoy/statistika-deiktes/ektheseis-gia-tin-exeliki-kai-diakymansi-ton-forologikon-esodon>).

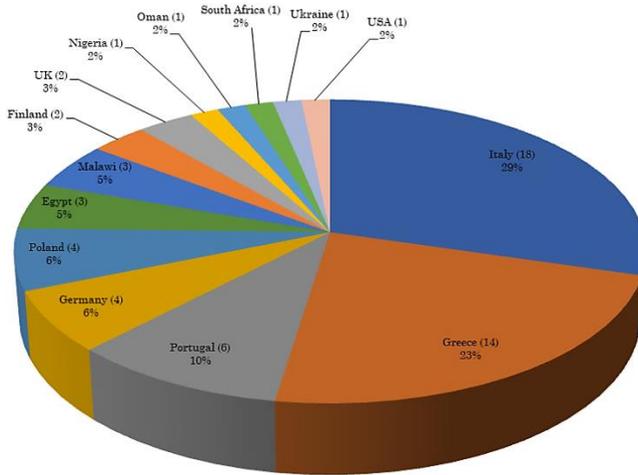
Alex Kostyuk: Thank you, Michail. I suppose that in the context you mentioned above it would be very beneficial for your further research to investigate not only organizational procedures but also the methods of communications with the general public (society); I mean any sort of reporting, etc. This could be a part of the policy of accountability. For example, what channels of public communications the public institutions should use to reduce the uncertainty of the general public in the time of pandemic?

Michail Pazarskis: Dear Alex, thank you for your comment regarding the methods of communication with the general public (society). However, as we mainly tracked and analyzed various organizational procedures and changes compatible with the corona-virus threat, only a small part of our research focus on the communication channels of the Greek tax authority (IAPR) (applied before the corona-virus threat and more effectively used in the COVID-19 era) such as electronic notifications through the web platform, personal information through email, data presentation online, etc. But we will further consider your comment.

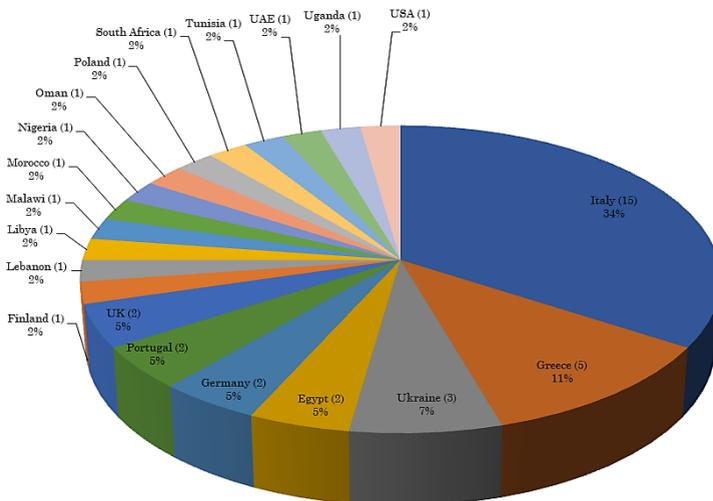
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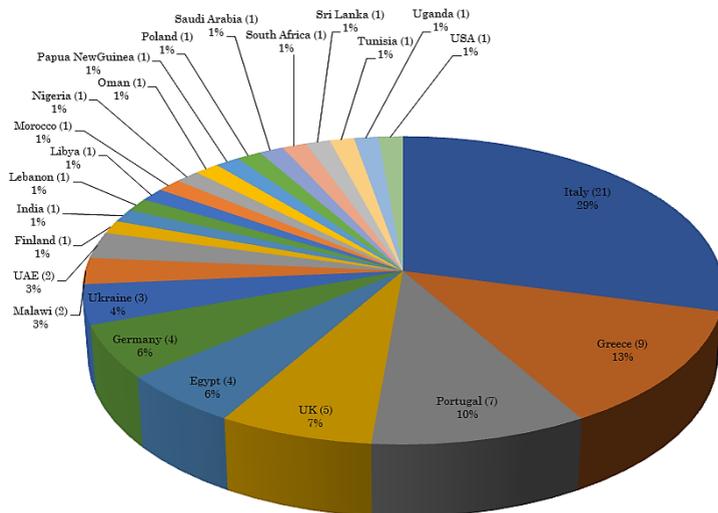
Conference forum presentations authorship – geographical representation



Conference forum comments authorship – geographical representation

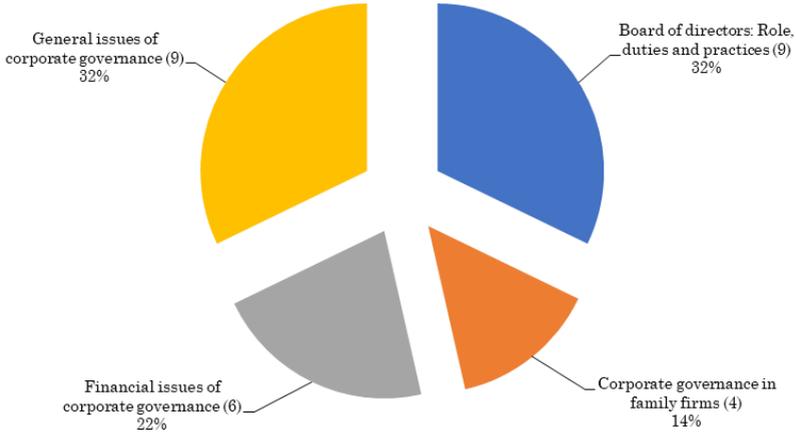


Conference forum attendees – geographical representation

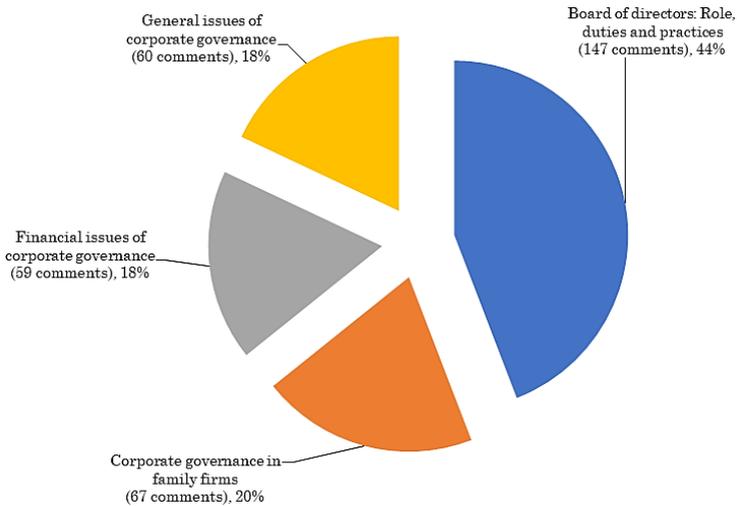


2. Conference forum presentations and comments

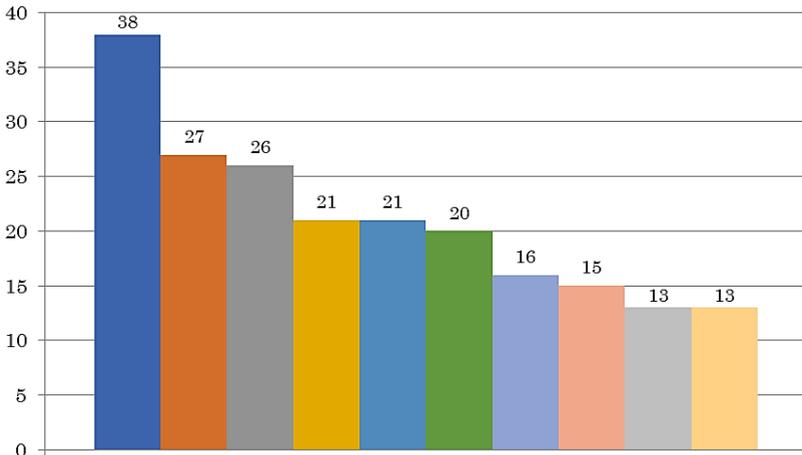
Topics of the conference forum presentations



Conference forum comments – topics discussed

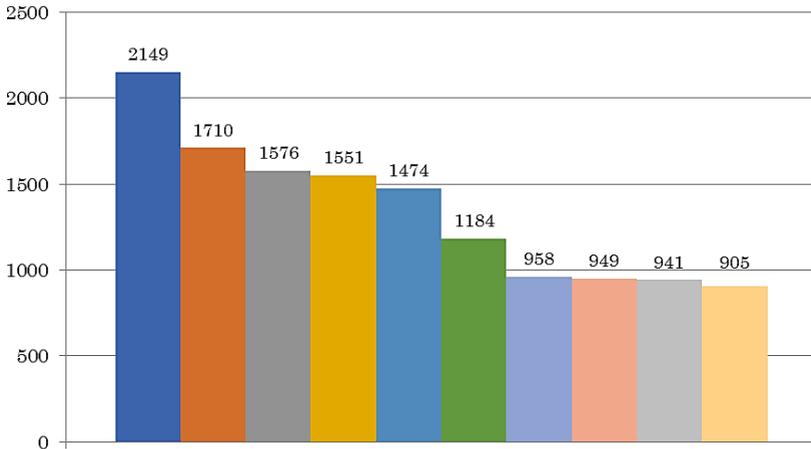


Conference forum comments – top-10 most discussed presentations (by number of comments)



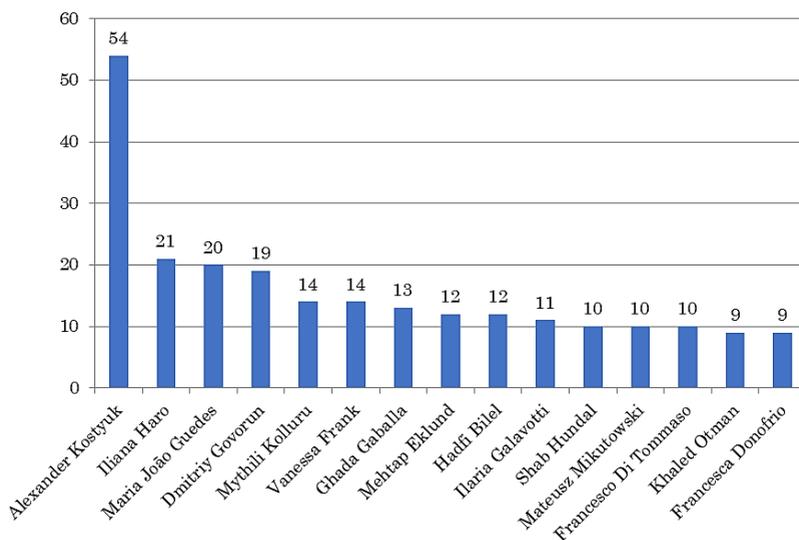
- 1.1. A new way to measure the gender diversity on boards
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- 1.2. The implications of COVID-19 on banks' compensation policy: An analysis of European significant banks
- 2.4. Information policy of family firms listed on the Warsaw Stock Exchange. The case of stock exchange releases related to the COVID epidemic
- 2.1. Cyber security in family businesses - Empirical assessments from the perspective of German SMEs
- 1.6. Can the nomination committee affect banks' ESG controversies? Empirical evidence from the European systemically important institutions
- 2.3. Corporate governance and strategic alignment in tourism during the pandemic era: Decision making for family businesses in Greece in turbulent times
- 1.4. The predictors of corporate social responsibility (CSR) committee
- 4.5. Bank risk governance in Nigeria in the context of the Basel principles on enhancing corporate governance

Conference forum comments – top-10 most discussed presentations (by volume of comments (words))

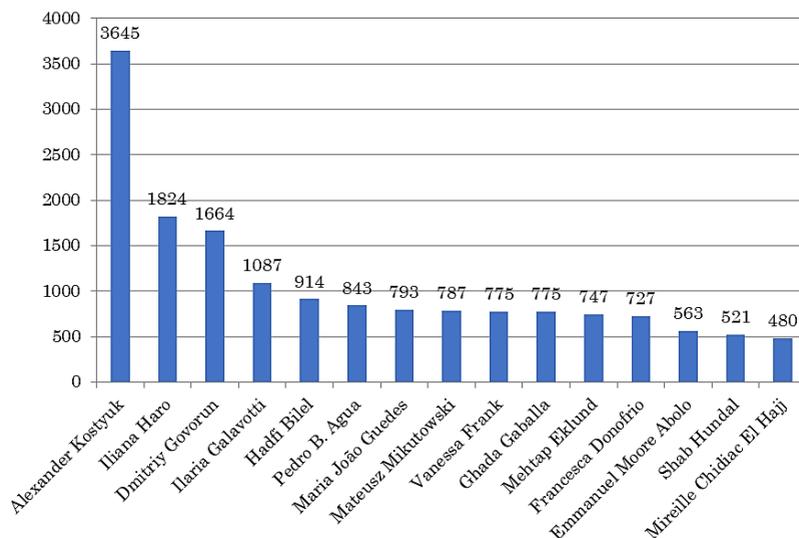


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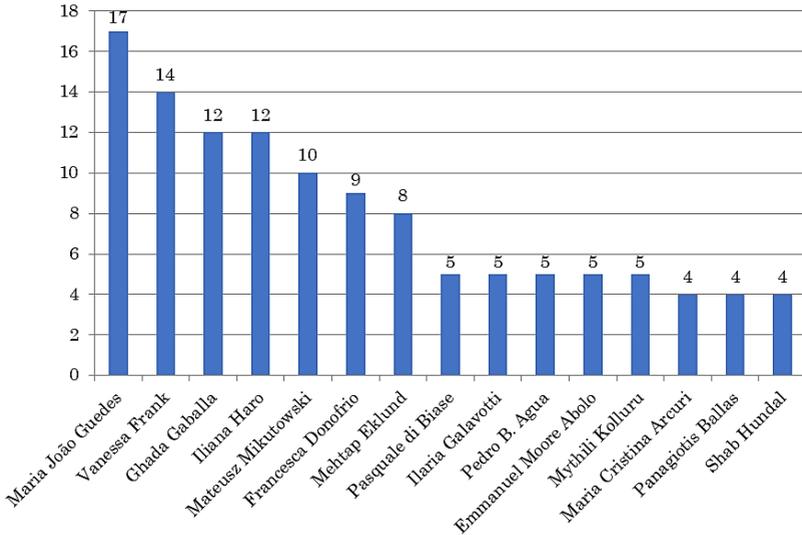
Conference forum comments – top-15 most commenting discussants (by number of comments)



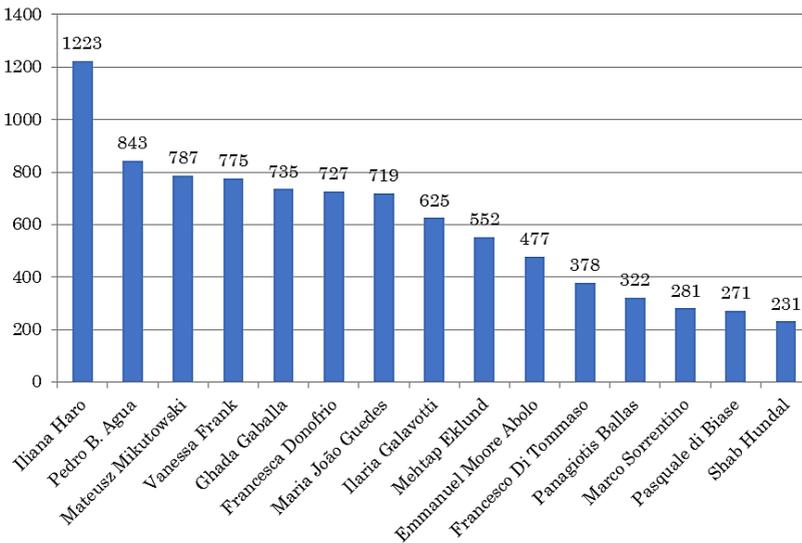
Conference forum comments – top-15 most commenting discussants (by volume of comments (words))



Conference forum comments – top-15 most commenting presenters (by number of comments)



Conference forum comments – top-15 most commenting presenters (by volume of comments (words))



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