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# CORPORATE GOVERNANCE: FUNDAMENTAL AND CHALLENGING ISSUES IN SCHOLARLY RESEARCH

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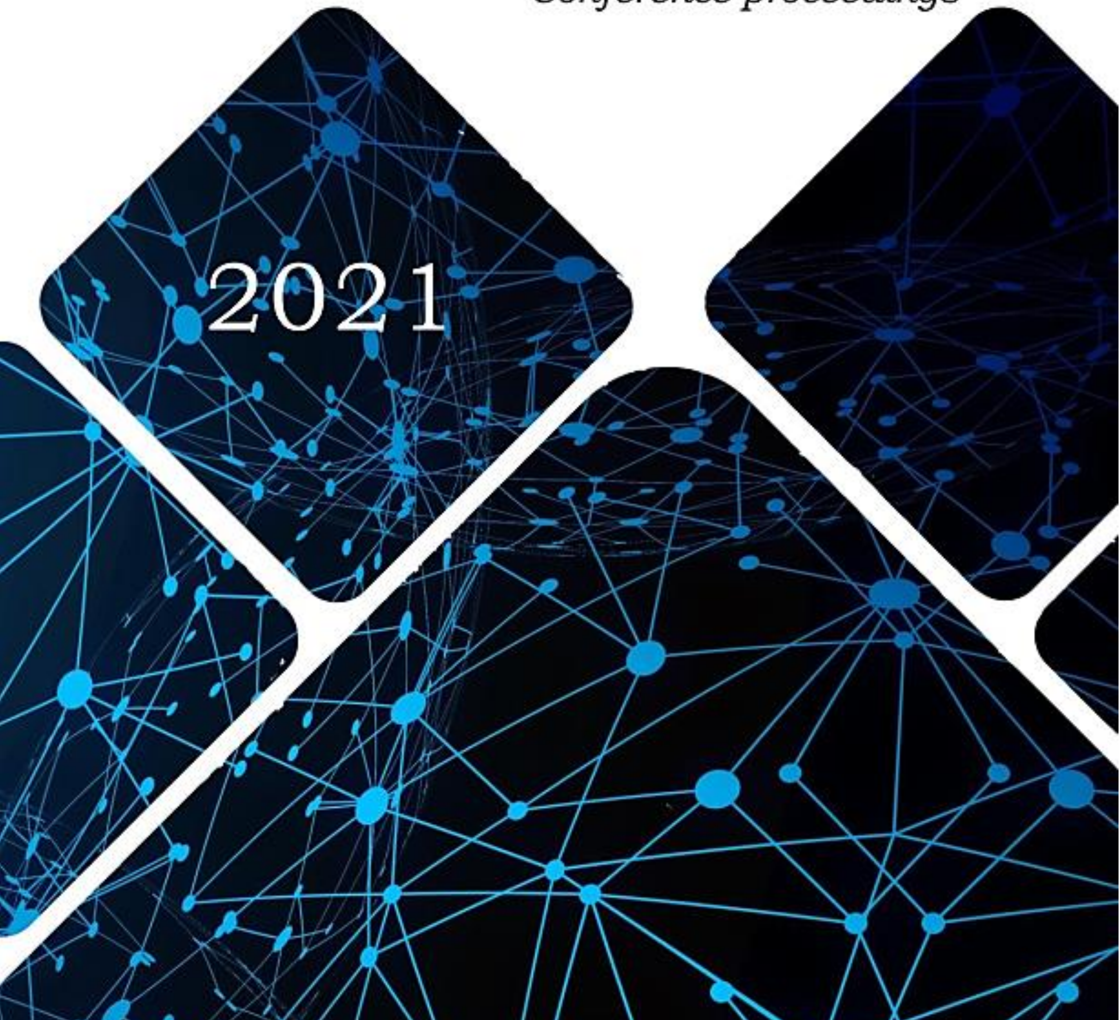

# Proceedings

of the

International Online Conference

# "Corporate Governance: Fundamental and Challenging Issues In Scholarly Research"

November 25, 2021


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# CORPORATE GOVERNANCE: DISCOVERING THE NEW RESEARCH HORIZONS

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The global reduction in individual or retail ownership of stocks toward a movement to more institutional ownership has had many effects on the financial markets, stock prices, and corporate structure over time (Hogan & Olson, 2019). According to Blume and Keim (2017), since 2010 over 65% of the average publicly traded firms are now owned by institutional investors. Institutional ownership in turn has highlighted the need and brought about a higher impetus for companies to subscribe to areas of importance in stakeholder theory that may not have been of high priority in a firm's former corporate governance agenda. While previous boards would have concentrated more on profitability and share price, modern corporate boards also need to focus on demonstrating the firm's ability to practice good corporate citizenship with sound financial and corporate governance practices.

Modern corporate governance is indeed a dynamic and changing set of guidelines, practices, and procedures that are used to steer and manage a company forward. Factors that are inherent in today's discussions of corporate governance deviate, sometimes dramatically, from those emphasized just a few decades ago. Even historical corporate titans who still dominate their respective industries have most likely evolved with dramatic changes to their corporate governance policies and structure. While no standard set of global copacetic corporate governance policies exists for all circumstances, there is a growing set of themes that do resonate with most companies, their investors, and their stakeholders around the world.

One of the driving forces of corporate governance is a company's board. Modern corporate boards have seen changes in terms of gender, size, diversity, composition, risk management techniques, digital and cyber savviness, environmental and sustainability governance, accountability, transparency, and ethical business practices (Adams & Ferreira, 2009; Eklund, Palmberg, & Wiberg, 2009; Chin, Vos, & Casey, 2004; Davidson & Rowe, 2004; Carter, Simkins, & Simpson, 2003; Shahzad, Rehman, Colombage, & Nawaz, 2019; Água & Correia, 2021; Aminadav & Papaioannou, 2020). A high level of corporate governance brings about transparency and this transparency allows a company's shareholders, management, and board to have aligned incentives. A few incentives that currently resonate globally as high priority are environmental and sustainable governance (ESG) and diversity at both the board and company levels.

ESG is a major evolving component in the modern corporate governance area (Cotter & Najah, 2012; Abdel-Meguid, Dahawy, & Shehata, 2021; Grove & Clouse, 2021; Ankier, 2020). ESG is no longer looked at as a siloed approach but has more recently been combined in companies' overall strategic, operational, and financial scenarios. Companies, their investors, and their stakeholders are interested in the evolving components in areas of ESG and diversity that historically were not major concerns from a financial perspective. Firms are also now judged in the marketplace for their ethical status among their peers. Research has shown that environmental areas such as deforestation, climate change, waste and pollution, and resource depletion are all areas of concern for stakeholders and investors. The social status of the company as it relates to employee working conditions, child labor, community involvement, employee development, and diversity are all key factors that set a company apart from its competitors and build upon its reputation in the corporate world. Additionally, governance areas such as executive pay, corruption, political donations and associated affiliations, board composition including its diversity and structure, and tax strategy also now play a pivotal role in building trust among a companies' many stakeholders, which in turn helps promote shareholder value (Mirone, Sancetta, Sardanelli, & Mele, 2021; Tsene, 2021; El Beshlawy & Ardroumli, 2021; Otman, 2019; Kyereboah-Coleman & Biekpe, 2006). Increased shareholder value then makes a company an excellent long-term investment for both institutional and retail investors alike.

In the future, academic research should focus on the areas mentioned above and other related issues. Companies are being held to a higher standard than their predecessors and will necessarily then need to be focused on challenges that are currently known and evolving, along with others that researchers and corporate directors could only at present dream about. Items like cyber and digital readiness are showing, for example, how formerly unknown threats like ransomware can not only sidetrack a company in the short run but can put them out of business just as quickly. Cryptocurrency and blockchain will no doubt also play a role in corporate governance in ways that we can now only speculate. Corporate boards will need to be efficient and malleable in order to adjust and change as needed to these increasing demands. Researchers will need to be there to help direct those resources to areas that provide value. Ironically, the growing complexity of the corporate governance structure will be a boom for academic research. It underscores the exponential growth in research possibilities now open to investigators that previously would not have been part of a corporate governance agenda.

These new-found fields mentioned above will sow the research agendas for the future of corporate governance. To that end, the papers presented at the international online conference, "*Corporate Governance: Fundamental and Challenging Issues in Scholarly Research*" represent some of that research that is starting to take bloom. The conference forum united the ideas of more than 40 scholars from many countries of the world who participated with their comments delivering more value to the research presented at the conferences. This conference continued the practices of the international online discussion forums introduced at the previous online conferences in 2020 and 2021 (Hundal, Kostyuk, & Govorun, 2021; Sylos Labini, Kostyuk, & Govorun, 2020; Kostyuk, Guedes, & Govorun, 2020). We hope that all these efforts will be able to discover new pathways for corporate governance research.

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**SESSION 1: BOARD OF DIRECTORS: THEORY AND PRACTICES**

# THE INFLUENCE OF CEO GENDER DIVERSITY ON EARNINGS MANAGEMENT AND CORPORATE OVERINVESTMENT: A RESEARCH AGENDA

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**Abstract**

This research will focus on a study evoking the dilemma of the agency linking the principal to the agent. In the effects of the earnings management on the corporate overinvestment, along with the moderating role of the CEO gender, as a lever of control, our study focuses on a panel of 130 French companies over a period of four years, by the application of instrumental variables estimation (SLS).

## 1. INTRODUCTION

Practically, the stock markets are far from being perfect. In this regard, Jensen and Meckling (1976) suggest that information asymmetries on the capital markets may give rise to conflicts of interests between corporate managers and shareholders. This divergence of interests creates a deviation from the optimal level of investment and consequently, companies will face inefficient investment situations. Along these lines, two types of ineffective investments are defined: the first one is overinvestment, from which the company invests in projects with a negative net present value; the second is defined as underinvestment, at which point the firm has insufficient resources available to finance investments with a net positive present value.

Nevertheless, the dissociation between ownership and decision-making authority, in the spirit of agency theory, creates a potential for managers to invest in non-optimal projects. La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1997) demonstrate that managers sometimes engage in additional investments that are opposed to the interests of the shareholders. In this area, corporate managers opt for diversified investment strategies that are not necessarily profitable, in order to improve their discretionary power.

In this matter, Jensen (1986) suggests that managers are likely to invest in projects beneficial to them, but this destroys the interests of the shareholders. Besides, managers refer to the implications of the information asymmetry, to privilege their own interests at the expense of those of the shareholders (Myers & Majluf, 1984). In this way, the earnings management by the corporate managers allow an inefficient allocation of company resources. Thus, information asymmetry can lead to a failure in the capital markets (Chen, Hope, Li, & Wang, 2011).

In this regard, it is essential to question the mechanisms that can control and monitor the problem of corporate overinvestment. We note in particular the moderating role of the CEO gender diversity, which is important in the supervision of management and the protection of the interests of external shareholders. It is also inevitable and can affect the relationship between earnings management and corporate overinvestment (Adams & Ferreira, 2009). We can note here that corporate governance has a role to play in reducing managerial opportunism. Thus, governance mechanisms may reduce agency problems in companies and moderates the effects of earnings management on corporate investment efficiency. In this study, we select the CEO gender, through its moderating role to examine its effectiveness in monitoring.

Our contribution in the literature is not limited to finding the relationship between earnings management and corporate overinvestment, but we will go further by looking for mechanisms that can reduce agency problems. The choice of this topic is legitimized by the nature of agency relationships within companies. It is explained by the legal and institutional characteristics of our study context. In fact, the French context is characterized by weak legal protection (La Porta et al., 1997). In this perspective, the added value of the board of directors is greater in countries where shareholders' interests are poorly protected (Dahya, Dimitrov, & McConnell, 2008).

## 2. LITERATURE REVIEW

The notion of agency is the central object in the current literature, which deals in this context with the philosophy of separation between decision making and ownership, with regard to divergence and conflicts of interest between the agent and the principals. It explains the desire that each agent seeks to maximize his own interest. The presence of behavior that causes divergence of interest and the presence of informational asymmetry encourages shareholders to put in place control and supervision mechanisms to motivate managers to react in the general interest of the firm (Jensen & Meckling, 1976).

However, the corporate governance system presents a set of measures and mechanisms intended to protect shareholders and investors from the opportunism of the managers (Charreaux, Couret, Joffre, Koenig, & de Montmorillon, 1998). In this way, financial disclosure occupies a central position in accounting research and presents a summary measure of the effectiveness of the firm's management. It is an indicator and is at the heart of the major concerns of the various stakeholders of the company (Dechow, 1994).

Conflicts of interest (Abdollahi & Pitenoei, 2020) indicated that firms will suffer from overinvestment and underinvestment and may therefore deviate from their optimal level of investment. Markarian and Michenaud (2019) examined the effects of earnings quality on capital investment efficiency. Their results show that the relevance of accounting figures helps to reduce the information asymmetry between the manager and other stakeholders. They explain that the presence of earnings management makes it possible to differentiate the best investment opportunities. According to Biddle, Hilary, and Verdi (2009), managers are always better informed than other stakeholders about the prospects of the firm. Thus, moral hazard and managers' decision-making space can lead to over or over-investment problems, depending on the availability of capital.

In the context of managerial opportunism, investment decisions are made by managers in suboptimal projects, and at a negative present value to increase the size of the firm. In a conflict of interest, this trend cannot be considered rational. Indeed, the managers act in this situation for several reasons.

Corporate managers may have motives and goals other than financial motives (reasons); they will try to increase their discretionary dispensation instead of investing in profitable projects, they will also try to improve their discretionary powers and subsequently increase their rootedness (Mueller, 1969).

The second motivation is related to the reputation and compensation of executives, which depends mainly on the size of the firm. Murphy (1985), Lambert, Larcker, and Verrecchia (1991) demonstrated that executive compensation depends primarily on the size of the firm. They explain that the firm size makes it possible to help an optimal determination of the remuneration of the managers, (aiming at) ensuring their reputation and consequently increasing its value on the labor market.

According to Chen et al. (2011), various control mechanisms can be mobilized to reduce the problems of information asymmetry and develop a favorable monitoring environment for corporate strategic management. To better control the manager's opportunistic behavior, it's important to include the accruals quality. It makes the leaders more accountable for their decisions. They suggest that the high-earnings quality result reduces the discretionary space and the adverse leadership selection, therefore, could reduce the problem of overinvestment.

In this lineage, Fakhroni, Ghozali, Harto, and Yuyetta (2018), Li et al. (2017) show that the relevance of earnings quality helps firms to detect problems related to those two inefficient levels, and that allows shareholders to analyze and evaluate the relevance and effectiveness of investments. As a result, it tends to mitigate the conflicts of interest between the shareholders and the corporate managers.

In a rich information environment, managers have little incentive to reduce earnings quality. Indeed, the opportunistic manager's behavior can lead them to engage in inefficient investments to serve their own interests. In this sense, some researchers confirmed the importance of accounting transparency to reduce managerial latitude. Recently, Boubaker, Derouiche, and Nguyen (2015), Sitorus and Murwaningsari (2019) believe that the efficient information environment exacerbates the moral hazard and discretionary management of managers, which encourages them to adopt effective decisions and a better allocation of resources.

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# MIND BIAS BEHIND BOARD DECISION-MAKING

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**Abstract**

Boards of directors have the duty to govern the firms they are responsible for. When addressing strategic challenges board directors make complex decisions concerning matters that may critically impact the organization's future, within an increasingly uncertain context. A considerable amount of board misleads decision-making have mind biases as root causes. Because board directors engage in strategic decisions, the potential negative effects of such biases are of utmost importance. World news has shown plenty of wrong decisions in the context of corporate governance. A taxonomy of a selected subset of mind biases is proposed. The identification and awareness of such bias constitute the first layer of protection, however, is not enough, as they rely on unconscious mechanisms, implying that one cannot usually correct own biases. However, by means of group or organizational consciousness, the effects of such biases may be reduced. This work departs from some of the main references in the fields of decision-making and systems analysis, aiming at providing lessons for the board's actuation.

## 1. INTRODUCTION

A few decades ago, Kodak decided to ignore the digital camera idea at its beginnings. As unfolded, such decision almost collapsed the company. Another example, The Royal Bank of Scotland has been so successful in their mergers and acquisitions (M&A) strategy in the first years of the new millennium, that apparently the board might not have been aware of their own *emotional tagging*, *confirming evidence* or *frame blindness*, taking progressively more risk, until the 2008 financial earthquake. There are plenty of examples of board decision-making, where highly qualified and experienced board directors did not avoid the disaster, or at least ended up severely hurting the organizations they were accountable for. This text focuses on subtle mind thinking mechanisms, which unconsciously mislead leaders into bad decisions or sometimes aggravate crises already in place. In such cases, critical decision-making faculties, decisiveness and the finest judgment should drive the dynamics of board's decision-making (Bain & Barker, 2010). Recognizing biases and negative board behaviour is of the essence for boards' effectiveness (Pick & Merchant, 2012). The subject of mind bias impacting board decision-making, at individual, group and organizational levels is addressed in this research.

The main motivation to research this subject is backed by a need to integrate the three bias domains in decision-making contexts, where the frontiers cross several fields of knowledge: 1) as individual decision-makers, 2) group decision-makers, and 3) organization-wide cultures. Such subjects further suggest a dive into the fields of systems thinking, and risk management, which seem to be a very young field of knowledge, in perspective. Among the answers offered, one can point: 1) a proposal of a taxonomy for the main biases; and 2) some recommendations for preventing such biases in the first place.

## 2. THEORETICAL BACKGROUND

The nature of complex socio-political systems with their associated dynamic behaviours, increases uncertainty and the associated fear, which goes against human nature, creating unease and stress. Decisions that go against social beliefs or beliefs intrinsic to the individual, provoke internal conflicts, inconsistencies, and cognitive dissonance. The decision-maker, consciously or not, will find artificial justifications to justify himself for the chosen course of action. Under crisis situations cognitive shortcuts may further aggravate the situation at hand, ending up in disaster. Dörner (1997) argues that complexity may be characterized by non-transparency, interdependency, and complex dynamics behaviour over time. If decision-making in a "normal" environment can be affected by psychological factors, then under crisis it is further aggravated, fostering more biases on decisions processes. Hammond, Keeney, and Raiffa (1998) described seven general mind traps at play within organizational context: 1) anchoring trap, 2) status quo trap, 3) sunk-cost trap, 4) confirming-evidence trap, 5) framing trap, 6) estimating, and 7) forecasting traps. Finkenstein, Whitehead, and Campbell (2008) call further attention to mind traps originated by pattern (mis)-recognition, and emotional tagging. Bazerman (2006) identified twelve biases, derived from three main heuristics: 1) availability, 2) representativeness and 3) confirmation. Moreover, Russo and Schoemaker (1990) had previously suggested two additional biases: 1) frame blindness, and 2) group failure. Dawes (1988) also elaborated on the consequences of framing effects, suggesting that scenario thinking may be of help for improving decision-making under complex contexts.

Cognitive biases can be further amplified by 'groupthink', which is understood as the practice of making decisions as a group, resulting typically in unchallenged and poor-quality decisions. Once cognitive biases are combined with 'groupthink', the biases remain uncorrected and decisions may be aggravated. Taking the OODA loop as a reference frame, cognitive limitations can impact the search ('Observe') and interpretation ('Orient') of data from real-world situations affecting the decision-making process ('Decide'). Table 1 presents some of the main biases that may potentially affect decision-making at the board level and beyond.

**Table 1.** Main mind biases

| ***Mind bias*** | ***Description*** |
|---|---|
| *Anchoring* | Attach decisions to initial values or past events, not giving enough attention to other information or factors. |
| *Confirming evidence* | Seek out for confirmatory information that supports an existing instinct or point of view while avoiding information that contradicts it. |
| *Emotional tagging* | When emotions affect the way a situation is analysed, and whether to pay attention to something. |
| *Estimation misconceptions* | Taking fast conclusions, based on partial information and without taking a few minutes to think about the situation. Underestimating external events and related interactions. |
| *Frame blindness* | Addressing the wrong problem because a mental framework for the decision set in with little thought, overseeing other options or lose sight of central ideas. |
| *Memory retrievability* | Memorized events are more weighted or focus on the events that we remember best get more weight in the decision process, ignoring others. |
| *Overconfidence* | Miss to collect key information because we are too sure about the correctness of the made judgments. |
| *Social effect* | Stick to the existing state of affairs or assume decisions of a group or relevant people as good choices. By maintaining the status quo, prevents responsibility for a decision. |
| *Sunk cost* | Making choices in a way that justifies past decisions. Unwillingness, consciously or not, to admit a past mistake. |
| *Track failure* | Failure to generate an organized approach to understanding the taken decisions and to keep records to track the results and audit the process. |

After analysing several disastrous decisions at the board level, most of these traps were present, together with others like the normativity, and deference to authority bias, which is aggravated in some cultures (Asaoka, 2020). Hence, a greater potential for disastrous decisions arises. Obviously, decision-makers have different risk profiles, which also affect their risk estimation, and risk-taking propensity within structural factors (March, 1994). Moreover, besides the referred biases, which may appear within normal board dynamics, one may ask what could be said of exceptional situations, as would be the case of crisis management. In any situation, crisis or not, boards have the ultimate stake in leading the situation both internally and externally to the organizations, they are accountable for.

## 3. METHODOLOGY

The methodology used in this research is an inductive approach, from a systems perspective, whereupon analysis of each of the selected cases, cause-and-effect influences were considered. The above classification is used for uniformity purposes, and applied to the selected cases, as per Table 2.

**Table 2.** Biased decisions, consequences, and mind bias

| ***Company*** | ***Year*** | ***Geography*** | ***Consequence*** | ***Bias*** | ***Obs.*** |
|---|---|---|---|---|---|
| Kodak | 1975 | The USA | Quasi-bankruptcy in 2011 | (7)<br>(9) | Focus on wrong frame (analogue photography)<br>Overconfidence in analogue technology |
| Daimler-Chrysler | 1998 | Germany; theUSA | Value destruction, tenths of billion $US | (8)<br>(9) | Mis estimation of risk<br>Overconfidence about the cultural match (actually a mismatch) obscured reality |
| RBS | 2008 | UK | Bailout, £45 billion | (3)<br>(9) | Emotional tagging as a consequence of success in M&A<br>Overconfidence in own success with M&A |
| Olympus | 2011 | Japan | Almost collapse | (1) | Hierarchical culture in Japan, where ranking bypasses sound decision-making and evidence |

Taking into account human cognitive limitations and the concepts of "bounded rationality" (Simon, 1990) and "limited rationality" (March, 1994), is it possible to minimise the effects of such mind biases? Some research suggests it is indeed, through awareness of such bias, and with a greater integration within teams and making use of the concept of "cognitive repair" (Dörner, 1997; Heath, Larrick, & Klayman, 1998). Better board development through adequate training with a focus on critical thinking and decisions analysis helps in preventing mind traps, while for organizational repair it needs deeper organizational learning.

Some analysis results regarding the main mind biases at play are summarized below. Such identification and classification help point out where to focus learning towards solution finding. Mind biases that are most common are overconfidence and estimation misconceptions. Even if related, such biases are common to several cases (see the two last columns of Table 2). By studying and analysing board decisions, it is possible by several processes, ranging from generic problem-solving methodologies up to systems thinking, to engineer "layers of protection" to prevent cognitive biases.

## 4. CONCLUSION

The identified mind biases have the potential to severely hurt organizations if boards cannot eliminate or at least minimise their pervasive effects. Hence, awareness is not only imperative but a real need exists for the understanding of individual biases, group biases, and then organizational biases, where organization culture has a say.

Literature suggests that several board poor decisions could be avoided, had some biases been prevented. It is possible to prevent disastrous decisions by means of redesigning the chances of mind biases occurring during critical decision-making situations, where time pressure and stakes are high. Such calls for the need to re-educate the professionals that act in such endeavours, together with some organizational re-engineering in order to compensate, detect and prevent the effects of such biases and cognitive limitations in the first place, by means of "cognitive repairs". Moreover, a turn from a person-centred perspective, focusing on single events and human errors, to a system centred perspective helps in developing understanding of the causes behind bad decisions, and to effectively introduce proactive safety measures.

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# FIRMS' LIFE STAGE AND DIRECTORSHIP NEEDS: A RESEARCH AGENDA

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## Abstract

Firms have different governance needs according to their development stage. Therefore, the question of "what is an ideal board of directors" is not the right one, as it depends on several dimensions, as for instance the business specifics, the economic context, alongside the specific firm's life stage. This extended abstract exposes some models derived from literature on the subject, raising some questions which may help shape an agenda for further research. While the literature on corporate governance has been focusing mostly on matured businesses, or sometimes on some specific dimensions as the specific industry, and business context; a critical dimension seems to have caught less attention from academics, and perhaps practitioners alike — that of the specific governance needs as a function of the firm life stage. Some stereotypes are exposed, and some preliminary ideas for a framework for selecting the right directing structure for the specific life stage are laid down.

## 1. INTRODUCTION

A considerable amount of corporate governance literature focuses on mature, listed companies, however, such is just one business typology. Conversely, there is less literature on directorship and governance needs of start-ups and firms in earlier lifecycle stages, as there are for firms that may enter a decline, be it because of technological change or disruptions in markets. Regardless, as such firms in decline may approach the end, they deserve attention in order to reduce economic and social costs, making the end-of-life transition "smooth". Start-ups and declining firms' life stages are just two extremes, as there is a multitude of typologies in between. At the same time, the literature on governance needs over time as firms' transition from one life stage to the next one is almost inexistent.

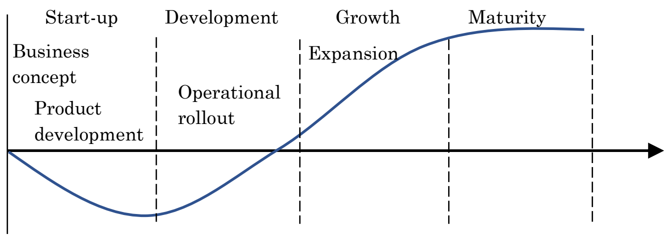
This article calls attention to such a subject, based on some information and a critical thinking approach, ending up at some categorization, necessarily incomplete, as such typification does not capture all the possible paradigms. The idea behind this study aims to propose: 1) a taxonomy for a firm's different life stages; and 2) some recommendations and awareness for solutions addressing the directorship needs associated with such life stages, as it is in the transitions between stages that risks may arise from having inadequate governance structures.

## 2. BACKGROUND

Each life stage has specific governance needs, which in turn demand different "functionalities" from the board of directors. For instance, it is easily understandable that the governance needs of a start-up, where some growing cycle is taking off — the needs for financing or help for opening some markets — are quite different from the governance paradigm of a listed and well-established company that has been around for forty years.

From their inception as brand-new start-ups, until the survivors become matured firms, the governance needs differ as a function of the specific life stage (Nueno, 2016). Similarly, to a living system, firms also have distinct dynamics which dictates different governance needs over time Figure 1. Therefore, an organic approach to organizations seems an adequate one (De Geus, 1997). Innovation, for instance, a key enabler of sustainability needs specific board attention depending on the firm's stage (Água & Correia, 2020). The same would be true in what concerns boards attention to risks, or the information needs as a function of the lifecycle stage (Bain & Barker, 2010).

**Figure 1.** Firms' needs vary over time



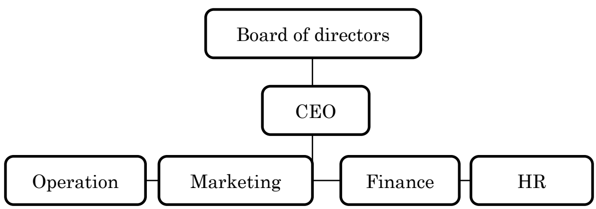

Like living beings with their morphosis over time, it is observable that firms also go through changes during their lifecycle. Riera (2019), focusing on family businesses suggests four stereotypes for a generic firm lifecycle (Table 1).

**Table 1.** Four critical life stages in the maturity ladder

| ***Typology*** | ***Characterization*** | ***Examples*** |
|---|---|---|
| Sole business | Only one directing structure | Most start-ups and young businesses |
| Multi business | Diversified businesses with different management structures | A group of businesses, resulting from diversification |
| Corporate structure | Holding structure with different boards per business | The "big corporation" |
| "Patrimonial" structure | Existence of a family office and/or owner's councils | When the founding family is still "associated" |

The *Sole business governance* represents the simplest structure. It is typically characterized by clearly defined functions (Figure 2). In such typology, the CEO may be quite intertwined with the board's works, which may be characterized by a higher level of detail than at some later stages. Because there is only one business, the level of specialization may be considerable; the CEO may have a preeminent role in its dealings with the board, and the board's agenda may tend to contemplate a considerable number of operational issues.

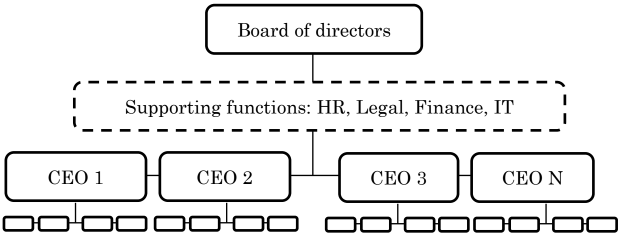
**Figure 2.** Sole business structure




*Source: Adapted from Riera (2019).*

As for *the Multi-business structure*, it increases the governance effort as the board of directors is accountable for different businesses, each with its CEO (Figure 3). Resource competition is expected from individual businesses, and politics is a central issue within such governance paradigm. The board focus changes from more operational issues towards setting up policies, placing some effort on the coordination among different businesses, establishing inter-business committees. A key question concerns having a "group CEO"? Board leadership is a core issue in this arrangement.

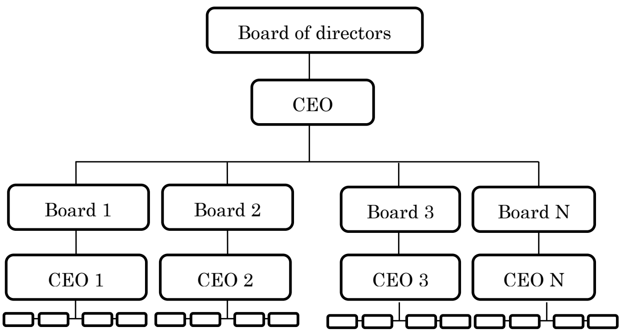
**Figure 3.** A multi-business governance structure




*Source: Adapted from Riera (2019).*

The *Corporate structure* comprises several business level boards answerable to a corporate CEO, which in turn integrates a corporate Level board of directors (Figure 4). In such a governance paradigm, the corporate board focuses on solving the issues brought about by the individual business boards. The role of "corporate CEO" is a major issue to bring smoothness to the whole governance structure. Board meetings may become intense, due to internal competition and strategic choices. The establishment of policies and corporate "values" is of the essence and may help guide decision-making under crisis situations (Fernández & Mazza, 2014).

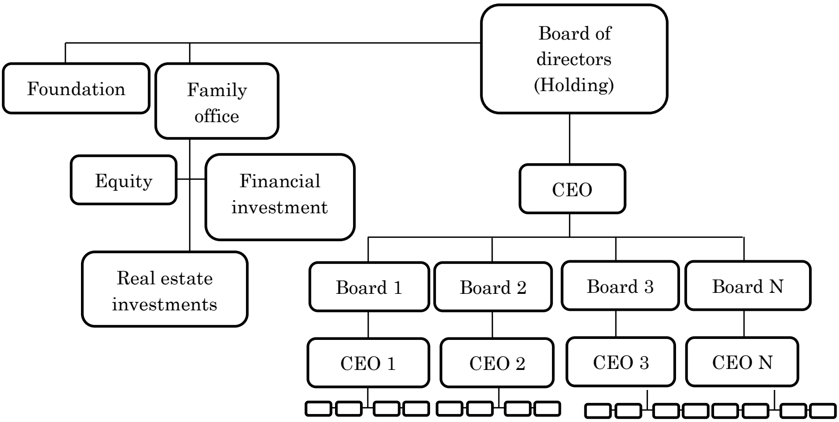
**Figure 4.** A "corporate" structure




*Source: Adapted from Riera (2019).*

Finally, a more complex governance arrangement would involve a family office, with a value-creation investor mindset being common and influencing governance decisions (Figure 5). The positions to be taken during general assemblies is an agenda core subject, together with investment decisions; being the family's position influential for decision-making.

**Figure 5.** Raising complexity: The "Patrimonial" board




*Source: Adapted from Riera (2019).*

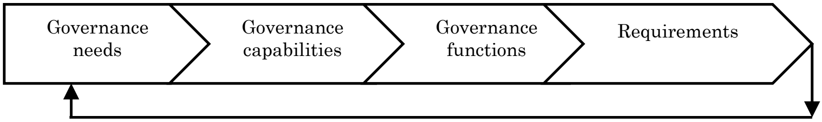
Departing from Riera's (2019) four stereotypes, two critical questions arise: 1) What characterizes each life stage? and 2) What are the adequate board directors' profiles for each life stage? In sum, what is the adequate board design as a function of a firm's life stage?

Enrione (2020) suggests some criteria for board design as a function of three dimensions: 1) business dimension, 2) ownership dimension, and 3) leadership dimension. Considering the firm's institutional configuration (Vicente & Tomás, 2018), at any lifecycle stage the board shall ensure the support for the right flow of business initiatives; the power network is adequately led; and, the adequate financial robustness and organization is taken care of (see Figure 1).

## 3. PRELIMINARY ANALYSIS AND SYNTHESIS

Such governance paradigms have different associated directorship *needs*. An adequate analysis could by electing corporate governance *capabilities*. Then, in order to achieve such capabilities, some *functionalities* will be required from such boards; which by their side have some underlying *requirements* (Figure 6).

**Figure 6.** Uncovering governance needs




*Source: Author's elaboration.*

Therefore, the specification of what constitutes the "best" board configuration is not the right question, as it depends on: 1) the business specifics and industry; 2) the context, and 3) the firm stage within a broad lifecycle.

Focusing exclusively on a generic business life stage, which for sake of discussion could be the introduced stereotypes (Figures 2–5), some broad specifications could be laid down, through critical questioning.

## 4. A RESEARCH AGENDA: DESIGNING THE RIGHT BOARD FOR A SPECIFIC LIFE STAGE

Considering the subject and the associated complexities, some lines of research are suggested, by questioning the what? how? why? and when? Table 2 presents a sample of possible questions, among many, depending on the approach to a specific firm´s analysis and diagnosis (Vicente & Tomás, 2018).

**Table 2.** What are the specific needs for each lifecycle stage?

| | ***Board dynamics specifics*** | ***Board structure & composition*** | ***Meeting's frequency and type*** | ***Agenda main topics*** | ***Information type*** | ***Decision making*** |
|---|---|---|---|---|---|---|
| What should be the agenda priorities for each lifecycle stage? And why? | | | | | | |
| What sort of competencies should boards have? And when? | | | | | | |
| When should board typology transitions occur as a function of firms 'lifecycle stages? And how? | | | | | | |
| … | | | | | | |

***Legend:*** *☺ Improve; 😐 Maintain; ☹ Discard, symbols could be used on this table for easing discussions.*

Such a table or matrix could be the basis for a framework, which would help decide what would constitute an adequate board depending on firms' life stage (Table 3).

**Table 3.** A framework relating firm's maturity stage to boards effort

| Firm's maturity stage+ | | |
|---|---|---|
| | Corporate structure | Multi business |
| | Sole business structure | "Patrimonial" structure |
| | Board tasks complexity+ | |

*Source: Author's elaboration.*

## 5. CONCLUSION

There is a considerable amount of literature about boards diversity and composition, which helps understand some adequacy dimensions, however, the specifics of board's adequacy as a function of firms' life stages are less common. It is suggested that directorship needs differ not only among industries, and specific companies, but also and perhaps more critically, as a function of the firm's evolving life stages. Some authors have proposed a preliminary taxonomy, suggesting four main governance structures as a function of such life stages, without relating them to business and industry specifics. Each of such structures should help answer different questions that emerge during each life stage, and which will impose different priorities on boards' agendas and decision-making. It is further suggested for research purposes, that in addition to such specific governance structures, each life stage may demand a different director's profile generalizing them into two broad categories — "specialist" or "generalist" ones. The review of some background literature suggests there is some space for research on this subject, critically important as transitions from one stage to the next one raises risks, and therefore more care is needed to ensure companies are travelling safely on their journey to maturity. A research agenda could include a systems approach to the subject, potentially developing some simulator based on one of the well-known systems modelling methodologies, after which, several different scenarios could be designed and tested and lessons learned from such simulations.

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# HOW ARE GLOBAL BANKS RESPONDING TO THE COVID-19 PANDEMIC?

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### Abstract

The COVID-19 pandemic has put pressure on financial systems and banks, which have had to review their management strategies and adapt them to the new global crisis. Banks' responses to COVID-19 can be traced back to the introduction of a portfolio of corporate policies, such as: the creation of *ad hoc* teams for the prevention and control of the effects of the pandemic within the company; the adoption of measures to support the community in which the bank operates; the protection and support of its employees and clients. The goal of this research is to understand how bank governance is reacting to the COVID-19 era, to determine which were the most used measures to contain the crisis. The results of this analysis, in fact, can make it possible to define best practices for the corporate governance of banks in times of pandemic crisis and provide useful elements for reflection to the banking regulatory and supervisory authorities.

## 1. INTRODUCTION

The pandemic has made it all too clear that boards of directors should address the full range of factors that allow the company to create value over time. This expanded competence implies changes in the nature and scope of board roles and responsibilities.

In the case of banks, the issue of the role of companies and their boards in the context of the pandemic phase is amplified. Banks, in fact, are called upon to guarantee, through the provision of specific services, the proper functioning of the financial markets and the financing of the real economy.

In response to the health emergency, boards of financial institutions discussed new issues arising directly from the COVID-19 pandemic throughout 2020. The insights addressed by the boards during the year covered a wide range of topics, including corporate goals and values, the operational mindset to be adopted during the health emergency and the unwinding of extraordinary measures, with the involvement of key business functions, including risk management, compliance, legal and human resources.

The pre-COVID-19 literature on banks' boards, developed over the past two decades, has often concerned the relationship between board characteristics and bank performance (Griffith, Fogelberg, & Weeks, 2002; Adams & Mehran, 2012; Peni & Vähämaa, 2012; Pathan & Faff, 2013; Love & Rachinsky, 2015; Salim, Arjomandi, & Seufert, 2016). In summary, these studies documented how companies with strong corporate governance mechanisms, including a sound board, are generally associated with better financial performance, higher corporate valuations, and higher equity returns. Furthermore, the importance of the relationship between environment, society and governance is growing in the literature.

Analysis of the recent literature allows us to draw the following insights into the role of the board of directors during the COVID-19 pandemic. Specifically, boards should: oversee business operations as they adjust to the new normal (Atici & Gursoy, 2020; Mathew & Sivaprasad, 2020; Patel & Patel, 2020); make appropriate capital allocations (Mathew & Sivaprasad, 2020; Patel & Patel, 2020); reassess dividends and executive compensation programs and review each type of expense (Mathew & Sivaprasad, 2020; Patel & Patel, 2020); be prepared to face these challenges by ensuring the adequate technological infrastructure (Atici & Gursoy, 2020).

However, such studies risk neglecting the evaluation of the non-financial measures put in place by the boards to tackle the pandemic. We believe that these measures are no less important than the financial ones as they can mitigate corporate reputational risk. Furthermore, recent literature on the subject appears to focus only marginally on the analysis of financial institutions during the pandemic phase (Talbot & Ordonez-Ponce, 2020, Tapver, Laidroo, & Gurvitsˇ-Suits, 2020).

The anti-COVID-19 measures adopted by banks to stem the negative effects on businesses and society due to the pandemic shock fit into this context. Understanding the trends behind the strategies undertaken by global banks against the COVID-19 virus allows us to define best practices and standards of international relevance.

## 2. HOW ARE GLOBAL BANKS RESPONDING TO COVID-19?

To highlight some evidence on the role of global banks' boards during the pandemic crisis, a significant sample of financial institutions was analyzed.

The dataset includes the most important financial groups designated by the Global Systemically Important Banks (G-SIBs). The 2020 list of Global SIBs consists of 30 institutions (Financial Stability Board, 2020).

The scientific analysis methodology adopted is based on content analysis. This methodological choice is consistent with the exploratory nature of the analysis carried out.

Qualitative information on the role of banks' boards during the pandemic phase was gathered by analyzing the reports on corporate governance and the annual reports of the 30 Global SIBs. Our analysis focuses on 2020, the year of the outbreak of the COVID-19.

The analysis of these reports made it possible to identify the main intervention measures adopted by the boards, which can be classified into four macro-categories: *teams for COVID-19 prevention and control; supporting communities; protecting and supporting employees; protecting and supporting clients.*

With reference to the first category, we found that more than half of the banks analyzed had set up a specific work team to manage the initial negative consequences triggered by the pandemic, with the full support of the boards. These teams improved risk forecasting and business continuity management, also by developing guidelines on pandemic prevention and control, to respond effectively and promptly to the health emergency.

Global banks also provided financial support to communities in the form of donations to organizations and associations, to counter the pandemic and reduce the cost of financial services provided to them. In some cases (about 20% of the sample analyzed) the chairs and the executive directors made a personal contribution to the fight against the pandemic, donating part of their remuneration to charity, in addition to voluntarily waiving any annual cash bonus for 2020.

With reference to employee protection and support, global banks acted in various ways in 2020. Prevention and control measures were coordinated to protect employees, office space and bank branches. In particular, work from home was implemented globally: it emerged that on average over 90% of staff were able to work remotely at the same time. Managers were encouraged to create virtual team networks to stay close to their employees and offer guidance and support. Furthermore, numerous measures were implemented aimed at listening to employees and psychological support to reduce work-related anxiety in a period of high and prolonged uncertainty.

With regards to client protection and support measures, global banks continued to provide relief to clients through programs aimed at supporting financial hardship caused by COVID-19. These measures can be divided into the following categories: *granting of state-guaranteed loans; access to health care and health protection; access to digital technology; financial support and promotion of entrepreneurship; access to ad hoc offers and services.*

Global banks played an active role in designing and executing COVID-19 government financing support programs, thereby facilitating access to government financial aid.

Among the health prevention measures, it should be noted that bank branches organized work shifts and reduced activities that required physical grouping. Protection and quarantine measures were adopted, as well as the promotion of technological solutions such as contactless payment in stores and contactless identification for assistance services.

As regards access to digital technology, global banks have strengthened digital channels, such as mobile banking, online banking, and ATMs during the COVID-19 phase. Furthermore, the push towards greater digitization has led banks to finance, among other things, several important projects in this area (e.g., the spread of fiber optic cable).

Regarding bank lending, specific credit policies to counter the pandemic were introduced (for example, deferred repayments on loans, credit extensions and loan renewals, commission-free banking services).

In addition to the above, some global banks launched investment funds to support start-up companies related to the medical sector, to help solve social problems that have become even more prevalent because of the pandemic.

Finally, with reference to access to *ad hoc* offers and services, retail banking has been particularly active in supporting SMEs and helping them to better manage the pandemic. Favorable conditions were also applied to those companies engaged in the prevention and control of COVID-19.

## 3. SOME CONCLUDING REMARKS

Since the beginning of the first quarter of 2020 banks' boards have had to address new management and strategic issues triggered by the COVID-19 pandemic.

In the context of this research, we analyzed the reports on corporate governance and the annual reports of global banks operating during the 2020 financial year, trying to understand the role of the directors in containing the effects of the pandemic crisis on company management, as well as defining the related underlying trends.

It was thus possible to identify some of the main measures adopted by global banks to tackle the COVID-19 era, such as: creation of team leaders for the management of the pandemic; formulation of guidelines on pandemic prevention and control; dissemination to employees and clients of information on the pandemic and related knowledge on prevention and protection; provision of credit on favorable terms to clients who have suffered the greatest effects of the pandemic; reduction of charges for financial services provided; measures to support work and production; measures on the safety and health of employees and clients; donations to organizations and associations fighting the pandemic.

In responding effectively and in a timely manner to the health emergency, global banks prioritized the health and safety of clients and employees. Regarding the latter, their protection concerned the implementation and dissemination of smart-working and the incentive to conduct online meetings, as well as support to avoid certain psychological effects triggered by these drastic changes in organizational models. With reference to client support policies, those of a financial nature assumed a decisive role (e.g., by favoring access to subsidized loans). However, measures of a non-financial nature (such as supporting access to healthcare and protection, as well as simplified access to digital tools) also played a leading role in the fight against the pandemic.

This short work could be developed by future research, perhaps using case studies and interviews with board members, to further investigate the measures and strategies undertaken by banks, also by extending the observation period and the sample analyzed.

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# BOARD OF DIRECTORS TURNOVER AND FIRM PERFORMANCE

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### Abstract

In this study, we analyze what happens to firm performance when boards of directors re-invent themselves. Boards can re-invent themselves in a variety of ways — new committees, more meetings, different compensation — but the most direct way that the structure and culture of a board changes are through turnover and replacement of board members. We study this turnover from two directions: the board chair being replaced and the proportion of non-chair directors being replaced.

Our motivation for this study goes back several years to the literature on corporate governance entrenchment. Bebchuk, Cohen, and Ferrell (2009) created an *Entrenchment Index* and showed that firms with more entrenched governance are associated with better firm performance; this followed Gompers, Ishii, and Metrick's (2003) seminal study using a broader measure of entrenchment showing that stock prices decreased when boards were more entrenched. Zerni, Kallunki, and Nilsson (2010) show that this entrenchment problem can extend to large investors, through different control mechanisms (such as dual-class shares). Bhagat and Bolton (2013) specifically study CEO turnover, finding that better governed firms are more likely to fire CEOs given

poor firm performance, while poorly governed firms are less likely to replace CEOs given poor performance. However, there can be certain situations where managerial entrenchment can help the firm execute its long-term strategies, such as with innovation. Chemmanur and Tian (2018) show that firms subject to more anti-takeover provisions innovate more; Manso (2011) suggests that managers can be motivated to innovate by incentivizing them with long-term options, golden parachutes and other devices that encourage entrenchment. Yet few studies have focused exclusively on turnover on and within the board of directors. We contribute to this literature by analyzing the dynamic interactions between board chair turnover and non-chair director turnover.

To extend the prior literature on CEO and managerial turnover to the board of director turnover and firm performance, we propose the following hypotheses:

*H1: Board chair turnover leads to improved firm performance.*

*H2: Turnover of non-chair directors moderates the impact of chair turnover.*

*H1* follows from prior literature showing that disciplinary turnover following poor firm performance is associated with superior firm performance. *H1* is consistent with this, suggesting that a firm replacing the board chair will, in general, lead to superior performance. Note that it is rare to see cases of disciplinary chair turnover disclosed, as we typically see with CEO turnover. Chair turnover is generally reported as passive, non-disciplinary and voluntary. Of course, some cases of chair turnover might be disciplinary or active, such as following poor performance, ethical issues or a merger. Even though we cannot distinguish between disciplinary and non-disciplinary chair turnover, such distinctions will exist and may illuminate relationships in our study. *H2* follows from management and strategy research that shows how managerial turnover can have extremely disruptive organizational consequences, especially when the board is unable to manage those transitions. Marcel, Cowen, and Balligner (2017) show that this is uniquely the case with an interim leader, but that this effect is moderated by situational characteristics. Quigley and Hambrick (2012) show that when a CEO steps down but stays on as a director it compromises the ability of both the new CEO and the overall board to drive strategic change. Thus, greater turnover leads to greater disruption and less alignment within the boardroom, which is likely to diminish the firm's ability to improve performance.

This study is an empirical study analyzing what happens to firm performance following board chair and/or director turnover. The key elements of the empirical design are as follows:

- Large U.S. firms from the S&P SuperComposite 1500 over 2001–2018.
- Chair turnover is measured as a 1–0 binary variable if chair is new.
- Director turnover is measured as the percentage of independent directors who are new in a given year.
- We use pooled OLS regressions methodology.
- The dependent variable is *EBIT* growth, defined as the year-over-year growth in earnings before interest and taxes relative to the base (turnover) year.

$$\begin{gathered} EBIT\ Growth_{t+1} = \beta_1 New\ Board\ Chair_t + \beta_2 Director\ Turnover_t + \\ \beta_3 Director\ Network\ Size_t + \beta_4 Chair\ Time\ On\ Board_t + \\ \beta_5 (New\ Board\ Chair_t \times Director\ Turnover_t) + \\ \beta_6 (Director\ Turnover_t \times Director\ Time\ on\ Board_t) + Controls \end{gathered} \tag{1}$$

Our preliminary findings show some very interesting results, contrary to both of our primary hypotheses. The results in the following table summarize our main results — which all need further exploration to better understand what is driving them:

**Table 1.** Firm level pooled linear analysis results

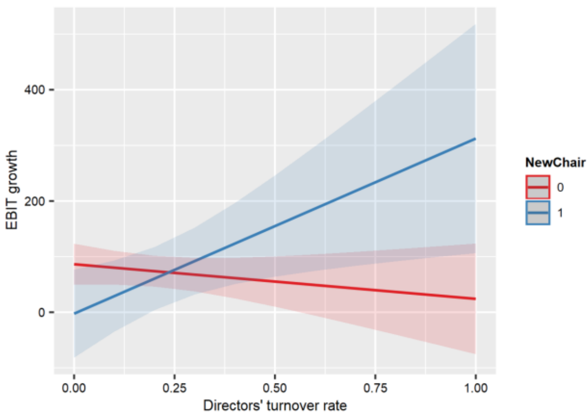
| ***Dependent variable*** | ***EBITgrowth*** | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| *NewChair* | | -12.211 | -92.883* | -12.036 |
| | | (31.056) | (43.621) | (31.058) |
| *TurnOver* | | -5.447 | -71.476 | -74.694 |
| | | (55.517) | (60.909) | (122.115) |
| *DirectorNetworkSize* | -0.001 | -0.001 | -0.001 | -0.001 |
| | (0.013) | (0.013) | (0.013) | (0.013) |
| *TimeonBoard* | -9.565* | -9.933* | -10.073* | -11.707* |
| | (3.978) | (4.096) | (4.096) | (4.954) |
| *AgeYrs* | -1.537 | -1.644 | -1.532 | -1.766 |
| | (3.174) | (3.283) | (3.283) | (3.289) |
| *factor(year)2015* | 40.836 | 46.550 | 44.416 | 47.119 |
| | (73.286) | (75.949) | (75.942) | (75.956) |
| *NewChair:TurnOver* | | | 374.217** | |
| | | | (142.113) | |
| *TurnOver:TimeonBoard* | | | | 9.140 |
| | | | | (14.356) |
| Observations | 20,304 | 19,702 | 19,702 | 19,702 |
| $R^2$ | 0.005 | 0.005 | 0.006 | 0.005 |
| Adjusted $R^2$ | 0.001 | 0.001 | 0.002 | 0.001 |
| F-statistic | 1.833** (df = 77; 20227) | 1.782** (df = 79; 19623) | 1.847** (df = 80; 19622) | 1.765** (df = 80; 19622) |

*Notes: * $p < 0.05$; ** $p < 0.01$.*

Table 1 presents the results of OLS analysis on the relationship between board turnover and firm performance. *EBIT* growth is the dependent variable; various measures of board chair and board member turnover as explanatory variables are considered in Models 1, 2, 3 and 4. The sample includes U.S. firms included in the S&P SuperComposite 1500 between 2001–2018. *EBIT* growth is the year-over-year growth in earnings before interest & taxes in the fiscal year following the reference year. Chair turnover is a 1–0 binary variable equal to 1 if the board chair is new. Director turnover is measured as the percentage of indepdendent directors who are new in a given year. We use a pooled OLS methodology.

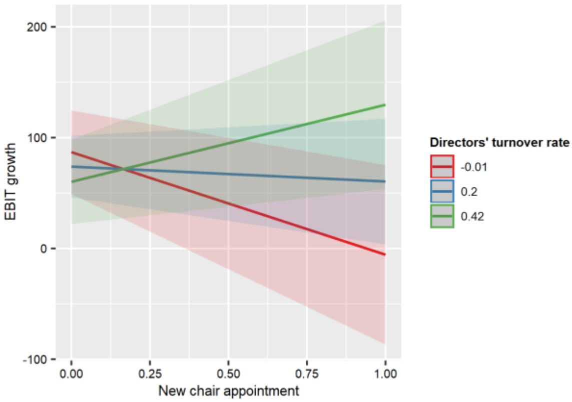
Model 3 is the relevant model, where see the full interaction of chair and director turnover. We notice that chair turnover alone leads to lower *EBIT* growth; chair tenure also has a negative impact on *EBIT* growth. Director turnover alone has no impact on *EBIT* growth. Importantly, we see that when a firm experiences both chair and director turnover, *EBIT* growth is highly significantly positive. The figures below show this relationship graphically:

**Figure 1.** *EBIT* growth & new board chair




This figure shows the estimates and 95% confidence intervals for *EBIT* growth given either when the board chair is new (blue line) or when the board chair is not new (red line), moderated by the percentage of independent directors who are new in a given year represented on the horizontal axis.

**Figure 2.** *EBIT* growth & director turnover

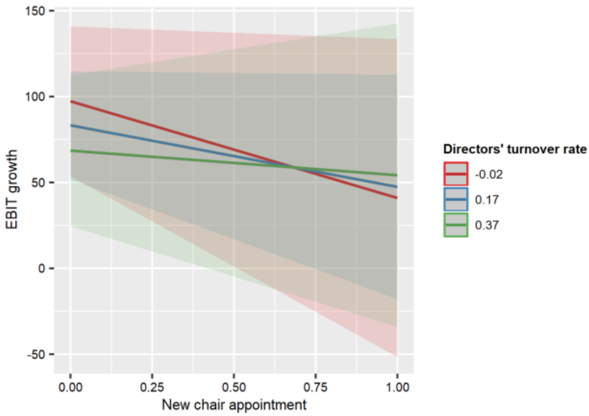



This figure shows the estimates and 95% confidence intervals for *EBIT* growth across three ranges of independent director turnover — low (red), medium (blue), high (green) — moderated by whether or not the board chair was new along the horizontal axis.

When a firm appoints a new chair, it enjoys greater subsequent *EBIT* growth if there is also more turnover among the non-chair directors. This suggests that the cultural and leadership dimensions of in-board networks are not exclusively driven by the chair; if a board has a toxic or dysfunctional culture, those dynamics are not necessarily tied to one individual but are connected to multiple members of the board of directors, including the board chair. Importantly, the performance improvement only occurs when the chair is replaced along with other directors, suggesting that the full board is responsible for the relative underperformance.

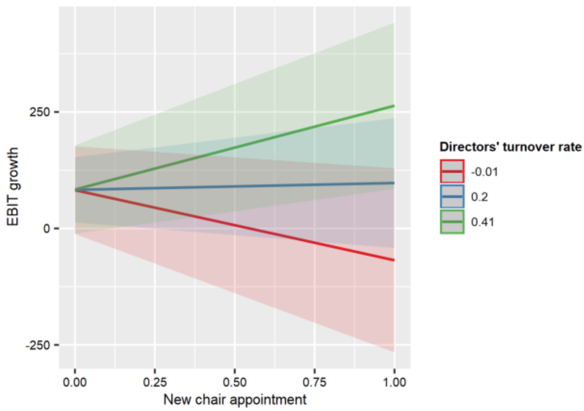
In the following figures, we separate this analysis into three 5-year time periods to explore if this relationship is time-dependent (given that the Global Financial Crisis, and related regulation, occurred in the middle of our sample period). These analyses are in the figures below:

**Figure 3.** Board of director turnover and *EBIT* growth (2001–2005)



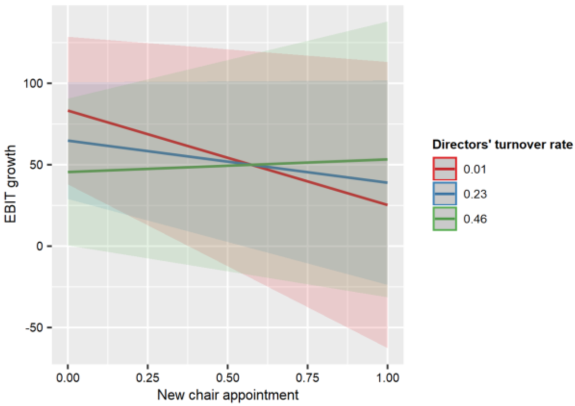

This figure shows the estimates and 95% confidence intervals for *EBIT* growth across three ranges of independent director turnover — low (red), medium (blue), high (green) — moderated by whether or not the board chair was new along the horizontal axis for the years 2001–2005.

**Figure 4.** Board of director turnover and *EBIT* growth (2006–2010)




This figure shows the estimates and 95% confidence intervals for *EBIT* growth across three ranges of independent director turnover — low (red), medium (blue), high (green) — moderated by whether or not the board chair was new along the horizontal axis for the years 2006–2010.

**Figure 5.** Board of director turnover and *EBIT* growth (2011–2015)




This figure shows the estimates and 95% confidence intervals for *EBIT* growth across three ranges of independent director turnover — low (red), medium (blue), high (green) — moderated by whether or not the board chair was new along the horizontal axis for the years 2011–2015.

We see the same general story across the three time periods: when there is a change in the board chair, more director turnover along with that change leads to superior subsequent *EBIT* growth. However, this dynamic is most pronounced in the middle period, 2006–2010, which includes the Global Financial Crisis. This is consistent with prior literature that shows that good governance has the greatest impact in managing leadership turnover following poor performance when disciplinary turnover is most likely.

*Outstanding Questions*

This research is ongoing and preliminary. As such, we still have a number of questions to explore and relate to these findings. Some of these outstanding questions include the following:

- Why does chair turnover occur?
- Can we explain the chair and director relationships?
- What if the chair is also the CEO?
- Why are these relationships most pronounced during 2006–2010?
- Are these results moderated or influenced by the firm's overall governance structure (such as board independence, director ownership, anti-takeover provisions, dual-class share structures)?
- Are these results different for family firms?
- Are these results influenced by ownership structure?
- Are these results consistent across different industries?

We plan to explore these questions, and others, to better understand these dynamics. We know that corporate governance represents the intersection of people and business, and many of the drivers of corporate governance are highly nuanced. Understanding how board chair and director turnover is related to agility, disruption, relationships and future firm performance can be of critical importance to investors, employees, boards and other stakeholders.

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# A GENDER STUDY ANALYSIS OF BOARD MEMBERS, C-SUITE, AND INSIDERS IN THE INSURANCE INDUSTRY

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**Abstract**

This paper will take a fresh look at the global insurance industry and see if women have made any significant gains in board leadership, C-suite, and insider positions in insurance. Our results show a clear trend of improvement in gender representation on board of director and insider positions for firms in the insurance industry. However, the gains stop there and unfortunately no significant advancement for the percentage of women in the C-suite positions is evident in our dataset at this time.

## 1. INTRODUCTION

The need to increase gender diversity has been on many companies' radar for over a decade. Academic research has shown some improvement for females in high level and board positions ("Women are making steady gains", 2018; Nguyen, Ntim, & Malagila, 2020; Valls Martínez & Cruz Rambaud, 2019). EmadEldeen, Elbayoumi, Basuony, and Mohamed (2021) argue that gender diversity has a positive effect on firm performance, so if companies increase the number of females on the board of directors, firm performance will increase.

The insurance industry has been no exception in the desire to improve its gender mix either as the result of mandates or corporate initiatives. According to the Million Women Mentors 2018 Women in

Insurance STEMconnector report (STEMconnector, 2018), women total over 60% of the workforce in the insurance industry but account for only a small percentage of the leadership roles. A demographic study "Women are making steady gains" (2018) analyzed publicly available data of 100 companies, including 91 publicly traded and nine mutual companies in 2013. The data was updated in 2017 and continued to highlight the need for women in insurance at the upper echelon positions. "Women are making steady gains" (2018) showed that while some gains had been made there was still much more work to be done.

This research will take a fresh look at the global insurance industry using a data set close to "Women are making steady gains" (2018) and see if women have made any significant gains in board leadership, C-suite, and insider positions in insurance. Using a sample of 83 companies in the insurance industry we investigate the female allocation of insurance company board of director, insider, and C-suite (CFO, CEO) positions. Our results show, that there has been a steady improvement in the percentage of women allocated to board positions and for insider positions of the firm. However, our results also show that there has been little to no gains made in including women in the highly coveted C-suite positions. We suggest that this lack of representation is related to the fact that female gains on boards have been made in positions that would not routinely make them eligible for CEO or CFO positions.

We attribute this lack of leadership roles to the fact that females are not as likely to make the strong networking connections early on in their career to allow them to ascend to those positions as easily as their male counterparts. Instituting possible programs which will help women assert themselves could be beneficial. Also, working with programs that will urge women to enter science, technology, engineering and mathematics (STEM) program, which allow them to learn the quantitative skills necessary for senior leadership positions would go a long way to bringing leadership equality to the Insurance Industry. This study will be useful to corporations in the insurance industry and any other financial service company as a way to gauge their own progress with gender diversity and get ideas for its improvement.

## 2. LITERATURE REVIEW

Diversity quotas, including gender diversity, have been instituted in some counties around the world in order to move towards a gender/diversity neutral position on corporate boards and high-level corporate positions. Studies over the past two decades have discussed gender diversity on corporate boards and insiders and have examined its correlation to firm performance. For example, see Nguyen et al. (2020) for an up-to-date and comprehensive systematic literature review (SLR) of the existing research on women on corporate boards (WOCBs) and corporate financial and non-financial performance.

A large proportion of studies do support corporate board gender diversity as it relates to firm performance. Showing diversity is good for business, Buchwald and Hottenrott (2019) examine board of directors demographics in a large sample of listed companies in 15 European countries and find that female representation on non-executive boards is associated with reduced turnover, an increase in tenure, and also a higher performance-turnover sensitivity of executives.

Garanina and Muravyev (2021) investigate the economic effects of the gender composition of corporate boards, employing a novel longitudinal dataset of publicly traded Russian companies over 1998–2014. The authors show some evidence that companies with gender-diverse boards have higher market values and better profitability. Bhatia and Gulati (2021) look at a database of 56 studies on corporate governance in the banking industry that were published between 2007 and 2019. They perform a meta-analytic review and show that bank performance is positively associated with larger boards and a high proportion of outside and female directors.

Đặng, Houanti, Reddy, and Simioni (2020) look at a sample of firms that made up the S&P 500 over the period 2004–2015. They find that the presence of women on corporate boards (measured either by the percentage of female directors on corporate boards or the Blau index of heterogeneity) has a positive and significant (at the 1% level) effect on firm profitability (measured by the return on assets).

Morris, Sodjahin, and Boubacar (2021) investigate a sample of Canadian companies for the period 2007–2015. Their results indicate that the proportion of women sitting on a firm's board of directors is influenced by its shareholding structure. The authors show a curvilinear relationship between a company's ownership structure and the proportion of women on its board of directors and audit committee. Specifically, as the concentration of ownership increases women on the board decrease.

Di Biase and Onorato (2021) investigate market performance of 119 insurance companies from three geographical areas in the period 2009–2019. They provide evidence that board structure and board independence are the most relevant governance factors, with a potentially positive impact on insurers' market performance.

While most studies show gender quotas are positively related to firm performance, some studies argue that the quotas produce bias in other areas. Neschen and Hugelschafer (2021) look at gender bias in performance evaluations in areas of gender quotas. Their research investigates the unintended negative effect that spills over to women who are not immediate targets of the quota, by signaling incompetence. Their results imply that the bias, which is overall quite robust and strongly pronounced, is still affected by individual gender-related characteristics.

Báez, Báez-García, Flores-Muñoz, and Gutiérrez-Barroso (2018) study the gender bias for 118 companies listed at the STOXX Global 3000 Travel & Leisure index. The results suggested a very relevant gap in the three analyzed dimensions: presence, salary and seniority. The study goes on to argue that women tend to be focused only on several corporate tasks like those related to marketing and human resources management. The authors argue that this bias, which in a first view can be considered an additional manifestation of a gender gap, is at the same time an opportunity to link modern corporations to a new style of management in which approaches like emotional intelligence could play a most prominent role.

Studies have also looked at not just the presence of females but the exact number of women on boards and firm performance. Valls Martínez and Cruz Rambaud (2019) show that the increasing number of women on boards is positively related to higher financial performance. They also show that gender mandatory law boosts the female proportion on boards of directors and as a result argue that there are valid business and ethical arguments to support mandatory gender legislation.

Redor (2018) studies investor reaction at the announcement of a female director's departure. They find a negative market reaction only when this departure drops the gender diversity below a critical level of three women showing there is a minimum number of women that the market perceives as a critical mass on a board. Interestingly, this shows that conversely there is no max percent of females on the board which would be considered optimal in the market.

In addition to the board of directors' literature supporting gender diversity, research has also shown that hiring female CFOs can have positive repercussions. Doan and Iskandar-Datta (2018) documents that firms hiring female CFOs experience an improvement in the level of transparency, represented by a reduction in the bid-ask spread and an increase in share turnover, relative to those hiring male CFOs.

## 3. DATA AND RESULTS

This study examines current trends in gender diversity for 83 companies in the insurance industry. The sample includes 61 U.S. firms, 14 Bermuda/Cayman companies, and 8 other global insurance companies. The companies were then broken into 7 segments (broker, financial, large primary, life/health, offshore, personal, and primary). All data is hand collected by visiting the company's website and verifying gender for each of the names collected. The data was collected to emulate the dataset used by "Women are making steady gains" (2018). Companies that were sold and merged since 2017 were replaced with companies in the same segment and when possible firm size allocation, as well as, public and private allocation as the original study. If there was no good substitute we did not replace the firm. The sample still had a significant number of companies in each of the sectors compared to the original study.

Our results show there is a steady improvement in the percentage of women allocated to board positions over the past eight years in all segments of the insurance industry. Currently, females in our sample represent 26.11% of all board positions. This number is significantly higher than the 18.69% found by "Women are making steady gains" (2018). When the data is expanded to include industry segments, all segments of the industry follow this trend. The highest presence of females on boards is in the life/health segment of the industry with 94.44% having 2 or more females on the board. The largest gains for females over the past few years have been in the financial and primary insurance segments. Financial representing 23.7% of females in board positions overall up from 9.09% in 2017. Primary saw the largest percentage increase from 5.14% in 2017 to 22.69% in 2021.

In addition to the overall increase of women on boards in general, the number of women on each board has steadily increased over time. Companies with 2 or more females on the board represent 81.93% of our sample. Companies with 3 or more females on the board represent 55.42% and companies with 4 or more represent 34.94%. While this shows progress there are still companies in our sample, roughly 10%, with zero female board members.

Insider information was collected by viewing each company's website and collecting all names the company identified as insiders. The data show that female insiders in the life/health area make up the largest proportion of that segment with 31.51%. This was followed by brokers at 25.88%, 24.32% for financial, 24.10% for personal, 21.28% for primary, 19.63% for large primary, and 18.24% for offshore. Our data show that the most common female inside officer positions are the roles of HR/chief people officer and general council/legal. This data supports the results of Báez et al. (2018) who find insider and board roles associated with females are mainly in the marketing and human resource areas.

While there have been some clear trends in gains for females in the board of directors and insider positions, our sample doesn't show these same trends in the C-suite positions of CEO and CFO. Although females currently make up approximately 25% of all insurance industry boards and roughly 27% of inside officers, our data shows they translate to only 10.12% in CEO and CFO positions. So, while representation on the board and insider positions has been increasing it does not appear from our data that women at this point hold a commensurate percentage of the coveted top two positions.

Given that the majority of female insider positions in our sample are in non-quantitative roles, such as legal and human resources, it would appear unlikely that this result will change anytime soon. While there are some success stories in our dataset, for example, Aspira Women's Health has five board seats and 4 of them are women. The majority have three or less and those that do tend to have more than 3 are in the life/health or personal lines which tend to be more customer-facing.

A study by Mckinsey and Company (Ellinrund & Lodolo, 2019) found the gender gap appears early in the talent pipeline, upon the first promotion to manager. Their research finds that women across industries are 21 percent less likely to be promoted than men, and black women are 40 percent less likely than men to be promoted. The authors suggest that men establish networks early in their career that allows them promotions and raises, while women don't have the ability to do so.

We suggest that supporting females early on in their academic careers to choose careers in more STEM-oriented areas that allow them access to higher-level math and science-related courses would go a long way to setting them up for professional careers that would lead to higher-level leadership positions. Also, creating mentoring programs for females that would support them in deeper networking connections within the Insurance and/or financial services industry could also benefit the gender problem. Lastly, it is important for senior male counterparts to be aware of the potential unintended bias for younger female employees as compared to their male counterparts. Supporting females in the non-traditional STEM roles and deeper early networking circles within the insurance industry could go a long way to improving female representation at the upper echelon insurance industry leadership positions in the future.

## 4. CONCLUSION

Our results show a clear trend of improvement in gender representation on board of director and insider positions for firms in the insurance industry. As of 2021, our sample shows an impressive 81.93% of all insurance boards having at least two or more females on their board. However, when the data is segmented these results show the majority of the gains are in consumer-facing segments of the industry with other segments having as low as 57% for at least two females and 27% for 3 females in the offshore segment of the industry. Female inside officers have increased to an overall percentage of 26.82% with segment breakout ranging from a high of 32% in life/health to a low of 18% for offshore. The gains stop there and unfortunately no significant advancement for the percentage of women in the C-suite positions is evident in our dataset at this time. A meager 10% of all CEO and CFO positions in this sample of the insurance industry are held by females.

We suggest that this inequitable result could be related to the poor participation of females in the STEM areas which would introduce to and support them in more quantitative fields of study where they would be more qualified to fulfill CEO and CFO positions. Also, with so few females currently in upper leadership positions, there are few mentors for females to develop deep networking connections early in their career. These network connections have been shown to help with early promotions and raise. As a result, females do not get the same level of gender support that their male counterparts get early on which manifests with fewer promotions later in their careers.

We suggest instituting company lead initiatives to break down this potential unrecognized internal bias could go a long way to helping the females in the industry generate the same level of networking contacts as their male counterparts. Also, introducing and supporting them early to STEM careers could also help internalize the same level of confidence in their abilities as their male counterparts for quantitative leadership positions.

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## SESSION 2: CORPORATE GOVERNANCE: FINANCIAL MARKETS AND RELATED ISSUES

# AUDITOR CHOICE AND CORPORATE GOVERNANCE MECHANISMS: A STUDY OF LISTED COMPANIES ON THE ATHENS STOCK EXCHANGE

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## Abstract

Auditing is a key factor of financial reporting quality that reduces information asymmetry, improves regulatory compliance, and enhances internal control effectiveness. The decision to select an audit firm is one of the most complex decisions. There are several factors that drive auditor selection including ownership structure, corporate governance attributes, the risk of information asymmetry and country-level determinants (Habib, Wu, Bhuiyan, & Sun, 2019). Although several studies have been conducted in this field, findings on the association between auditor choice and corporate governance from European countries are limited (Quick, Schenk, Schmidt, & Towara, 2018), and since accounting standards are issued at the national level, cultural

differences affect the auditing environment (Knechel, Niemi, & Sundgren, 2008). The purpose of this study is to extend the literature by examining corporate governance factors which affect auditor choice in Greece, focusing on the impact of board characteristics, gender diversity and ownership structure.

For this purpose, a logit regression model was developed to assess the association of board size, board independence, audit committee size, presence of women on the board of directors and the audit committee, family and institutional ownership with the selection of a Big4 or non-Big4 auditor; controlling for firm size, profitability, leverage, and liquidity. The sample of the study comprised all non-financial companies of the *FTSE/Large Cap* and *FTSE/Mid Cap Indexes* of the Athens Stock Exchange (ASE) for the five-year period from 2014 to 2018[1]. The final sample -after excluding the financial sector companies (i.e., banks, insurance firms, etc.) — amounted to 37 companies with 185 firm-year observations. The estimated logit regression model is depicted in the following equation:

$$\begin{gathered} Audc_{it} = \beta_0 + \beta_1 bsize_{it} + \beta_2 bindep_{it} + \beta_3 acsize_{it} + \beta_4 wboard_{it} + \\ \beta_5 waudcom_{it} + \beta_6 famown_{it} + \beta_7 instown_{it} + \beta_8 fsize_{it} + \beta_9 prof_{it} + \\ \beta_{10} lever_{it} + \beta_{11} liq_{it} + u_{it} \end{gathered} \tag{1}$$

where,

- *audc*: auditor choice, a dummy variable that takes the value 1 if the firm that conducted the annual audit of the financial statements is one on the Big4 audit firms (Ernst and Young, PwC, KPMG, Deloitte) and 0 otherwise;
- *bsize*: board size, measured by the total number of the members of the board;
- *bindep*: board independence, measured by the percentage of independent members to the total members of the board of directors;
- *acsize*: audit committee size, measured by the total number of the members of the audit committee;
- *wboard*: presence of women on the board, a dummy variable that takes the value 1 if there are women on the board of directors and 0 otherwise;
- *waudcom*: presence of women on the audit committee, a dummy variable that takes the value 1 if there are women on the audit committee and 0 otherwise;
- *famown*: family ownership, the percentage of the shares owned by the founding family of the firm;

[1] FTSE/Large Cap is the large capitalization index capturing on real time the performance of the 25 largest blue-chip companies within the Athens stock market. FTSE/Mid Cap is the middle capitalization index and captures on real time the performance of the next 20 companies of the ASE.

• *instown*: institutional ownership, the percentage of shares owned by institutional investors;
• *fsize*: firm size, measured by the natural logarithm of total assets;
• *prof*: profitability, measured by return on assets (ROA) ratio;
• *lever*: leverage, measured by debt-to-equity ratio;
• *liq*: liquidity, measured by current assets to current liabilities ratio;
• *u*: error term.

The results of logit regression are illustrated at the table that follows:

**Table 1.** Logit regression results

| ***Variables*** | ***Coef.*** | ***Std. err.*** | ***Z*** | ***P>\|z\|*** | ***[95% conf. interval]*** | |
|---|---|---|---|---|---|---|
| ***bsize*** | 1.389527 | 0.5783011 | 2.40 | 0.016** | 0.2560773 | 2.522976 |
| ***bindep*** | 16.39327 | 7.231495 | 2.27 | 0.023** | 2.219804 | 30.56674 |
| *acsize* | 3.364698 | 2.248446 | 1.50 | 0.135 | -1.042175 | 7.77157 |
| ***wboard*** | 7.184807 | 1.795277 | 4.00 | 0.000*** | 3.66613 | 10.70348 |
| *waudcom* | -1.631129 | 1.775354 | -0.92 | 0.358 | -5.110758 | 1.848501 |
| ***famown*** | -6.216029 | 2.798185 | -2.22 | 0.026** | -11.70037 | -0.731688 |
| ***instown*** | 8.663355 | 3.872012 | 2.24 | 0.025** | 1.074351 | 16.25236 |
| *fsize* | 1.012142 | 0.6584904 | 1.54 | 0.124 | -0.2784752 | 2.30276 |
| ***prof*** | 8.702298 | 2.544757 | 3.42 | 0.001*** | 3.714666 | 13.68993 |
| *lever* | -1.625142 | 4.530134 | -0.36 | 0.720 | -10.50404 | 7.253759 |
| ***liq*** | 0.8206399 | 0.2878319 | 2.85 | 0.004*** | 0.2564998 | 1.38478 |
| Constant | -60.84035 | 12.36366 | -4.92 | 0.000 | -85.07267 | -36.60803 |
| sigma_u | 6.177468 | 0.9281936 | | | 4.601649 | 8.292921 |
| Rho | 0.920632 | 0.0219578 | | | 0.865527 | 0.954347 |
| LR test of rho = 0; chibar2 (01) = 69.91 | | | | Prob >= chibar2 = 0.000 | | |
| Number of obs. = 185<br>Number of groups = 37 | | | | Wald chi2 (11) = 75.09<br>Prob > chi2 = 0.0000 | | |

*Notes: *** = significant at 0.01, ** = significant at 0.05, * = significant at 0.10.*

Panel logit regression analysis suggests that corporate governance affects auditor choice in Greece. More specifically the selection of a Big4 audit firm was found to be significantly positively associated with the presence of women on the board at the 1% level of significance and with board size, board independence and institutional ownership at the 5% level of significance. A negative association was found with family ownership also at the 5% level of significance. The above results indicate that firms with larger boards, with more independent members and women in their boards' composition, as well as firms with higher institutional ownership are more likely to appoint a Big4 audit firm. On the other hand, family-owned firms are less likely to engage a Big4 audit firm. As far as the control variables are concerned the decision to appoint a Big4 audit firm was found to be significantly positively associated with profitability and liquidity at the 1% level of significance.

The findings of the study meet our expectations that stem from agency theory and highlight the role which corporate governance plays in auditor selection. The negative relationship of auditor choice with family ownership supports the argument that family firms in the absence of a strong external shareholder may be unwilling to appoint high-quality auditors (Khan, Muttakin, & Siddiqui, 2015; Habib et al., 2019). Board independence on the other hand is positively associated with auditor choice suggesting that greater board independence mitigates family influence in family-controlled firms (Matondi, Tucker, & Tommasetti, 2016). Institutional ownership is also positively associated with auditor choice confirming the results of prior studies (Kim, Pevzner, & Xin, 2019) and indicating that institutional owners appoint Big4 auditors to reduce agency costs and information asymmetry. Finally, the positive association of the presence of women on the board of directors with auditor choice supports the argument that firms with female directors are more likely to demand higher audit quality and engage industry specialist auditors (Lai, Srinidhi, Gul, & Tsui, 2017).

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# THE WEIGHT AND ROLE PLAYED BY LISTED COMPANIES: A DISCREPANCY BETWEEN STATISTICAL AND STRUCTURAL INDICATORS

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## Abstract

Most studies on ownership structures at industry or geographic level limit the analysis only to listed or public companies. This choice is due to the paucity of data concerning limited liability companies and it is usually justified by the supposition that listed or public companies account for the major part of the economic variables. Through an empirical study on the EU28 aerospace industry, we show that while this justification can (partially) work for the statistical dimension, it definitely lacks support when concerning the structural (network) dimension.

## 1. INTRODUCTION

Most literature on applied analysis of corporate governance and ownership structures focuses only on listed or public companies, even when it concerns entire sectors or countries or even global level (Glattfelder & Battiston, 2009; Vitali, Glattfelder, & Battiston, 2011; Glattfelder, 2010). This is due to two main factors: 1) the paucity of data available on the other types of companies; 2) the assumption that listed or public companies cover the largest part, and thus, they are sufficient to understand all main aspects. Now, the former factor is losing relevance, because various data providers are trying to give ownership and governance data on all limited companies. Leveraging on this availability, our paper aims at checking the latter factor, that is the assumption that studying only limited companies is sufficient to grasp a reasonably satisfying picture of what happens in a whole industry. Hence, taking the EU aerospace industry as a case study, we will show the degree of representativeness of the group of listed companies (LCs) regarding the whole industry.

We run the analysis either on statistical or structural aspects, and we show a marked discrepancy between the two perspectives in terms of representativeness, relevance and roles. We are aware that the specificity of each industry prevents a tout-court generalization of our results. For instance, EU28 aerospace industry (hereafter EASIN) is high-tech and shaped by the EU28 corporate governance laws, relative diffusion of listed among large companies, and other general structural features, like a firm size distribution different from other world regions. Therefore, it is possible that the same study in the USA or in a low-tech industry in EU28 could produce different results. However, this is the first step in this direction and helps researchers in several fields of study, like corporate governance, financial networks, and strategic alliances through ownership relationships, to extend this analysis to other industries or countries, and to take our findings into account when dealing with only listed companies to represent a whole industry or country.

## 2. A SHORT SIGHT AT THE EU AEROSPACE INDUSTRY NETWORK (EASIN) AND METHODOLOGY

### 2.1. A short overview

Though considering that data on employees refers to only 51.2% of companies, EASIN employment is huge: 894,000 people. As well enormous is the total assets, which amounts to US$618.2 billion, though limited to 65.1% of companies. Turnover amounts to US$430 billion (but corresponding to only 42.8% of companies), while capital (115 billion) seems more representative than other variables, like the value of assets because it covers 69.3% of companies. Conversely, the value of cash flow (25.7 billion) is the least representative variable (33% of companies). However, besides the warning made in the previous (methodological section), it should be reminded to take all these numbers cautiously because of the hard problem of diversification. In fact, most of these companies — and especially the large ones — are diversified into information and communications technology and other mechanics, while the data does not let to identify only the pure aerospace activities.

### 2.2. Dataset and methodology

EASIN companies are strictly matching the two criteria of being into EU28 and the aerospace industry (NACE-3030). Because the aerospace industry requires huge investments in technology, research and development, productive capacity, coordination and commercialization power (Biggiero & Magnuszewski, 2021), we thought that our study had to find and analyse ownership partners of EASIN companies. They can be either from outside the EU28 and/or outside the aerospace sector — some of them may also be from the aerospace sector, but then they will be from another geographical region. We called them EASIN neighbours (hereafter NEIGH) because in the language of social network analysis there are just neighbours of the EASIN network.

Data has been collected via Bureau van Dijk's *Orbis database*[1], which allows for extracting data on companies with a number of attributes, such as financial, geographical, industrial, etc. The so found approximately 3000 companies — whose actual number is ever-fluctuating depending on the emerging and liquidated companies updated regularly — were additionally assigned their financial attributes (total assets, turnover, number of employees, etc.) and ownership relations (shareholder, participated company or both).

An ownership network is a graph where nodes represent shareholder companies and connections — called also arcs, links or ties — represent shareholding relations. Usually, a weight is associated with each oriented arc, expressing the percentage of shares held by each shareholder. Hence, the focus of our analysis is on the ownership relationships within EASIN, and also between EASIN and its NEIGH. Thus, companies can have participation — whatever its value or percentage respect with the equity capital of the receiver — as a shareholder or can be a participated company or can play both roles[2].

## 3. THE STATISTICAL WEIGHT AND THE STRUCTURAL ROLE OF LISTED COMPANIES

### 3.1. The relevance in EASIN

Listed companies are only 13 out of 365 total companies (Table 1), corresponding to only 3.7%. However, in terms of their ownership share, they cover 68% of all values, corresponding to $14.4 billion. With the exception of equity capital and turnover — for which LCs cover 36 and 45%, respectively — in terms of the other three economic attributes (employees, assets, and cash flow), LCs cover around 50%. Interestingly, there is only one ownership connection among them, meaning that in EASIN almost each LC is standalone. This attitude is confirmed by topological indexes because binary and weighted betweenness centrality (*Bc*) is 0, as well as all indexes that "point" at them ($In_{Cc}$ and $In_{Dc}$)[3].

[1] Used many times in the referenced literature, despite all its imperfections it is considered a reliable source of data for research.
[2] Being focused only on companies, shareholders as individuals were not considered.
[3] *Cc* stays for closeness centrality, which in directed networks can differ between in- and out-edges. $In_{Dc}$ and $Out_{Dc}$ means in-degree and out-degree centrality, respectively.

Conversely, they have an $Out_{Dc}$ 0.16 and $Out_{Cc}$ of 3.6. Noteworthy, LCs' topological relevance is definitely extremely lower than their statistical economic relevance.

### 3.2. The relevance in the extended network

When we add neighbors, we find 49 more LCs, which are proportionally much less than in EASIN, so that the share of all LCs on total companies halves. Interestingly, 13 out of the 62 LCs are into the main component, meaning that the most important companies operate there. Here, we find a not irrelevant number (29) of ownership connections among LCs, which covers 0.9% of all links. In terms of equity capital, they are 6% of all flows, while the values of ownership shares flowing from the 62 LCs to the other 3465 companies amount to 61%. Further, in terms of all the five economic attributes, they cover more than 64%, reaching 81% for cash flow. If we measure the pure topological relevance of LCs, we notice that $Bc$ is irrelevant, and binary $In_{Cc}$ is about 10 times $Out_{Cc}$, meaning that many companies indirectly connect to LCs to participate in their equity capital.

**Table 1.** The relevance of listed companies in EASIN and EASIN + neighbours

| | *EASIN* | | | *EASIN + Neighbours* | | |
|---|---|---|---|---|---|---|
| *Topological and statistical parameters* | *Abs. val.* | *Total* | *%* | *Abs. val.* | *Total* | *%* |
| listed companies as a group | | | | | | |
| # of intra-group links | 1 | 264 | 0.4 | 29 | 3209 | 0.9 |
| # of group links | 58 | 264 | 22 | 923 | 3209 | 29 |
| value of intra-group links* | 0.494 | 21.238 | 2.3 | 14.381 | 236.810 | 6 |
| value of group links* | 14.452 | 21.238 | 68 | 145.489 | 236.810 | 61 |
| group size (# of nodes) | 13 | 351 | 3.7 | 62 | 3527 | 1.8 |
| group value* | | | | | | |
| employees | 0.468 | 0.894 | 52 | 2.675 | 3.670 | 73 |
| turnover | 193.248 | 430.415 | 45 | 1,194.178 | 1,784.746 | 67 |
| equity capital | 42.160 | 117.034 | 36 | 1,254.164 | 1,966.420 | 64 |
| assets | 322.0 | 618.092 | 52 | 11,959.748 | 16,977.967 | 70 |
| cash flow | 14.203 | 25.684 | 55 | 81.143 | 100.753 | 81 |
| group centrality indexes | | | | | | |
| (binary) $Bc$ | 0 | | | 0.001 | | |
| (weighted) $Bc$ | 0 | | | 0.001 | | |
| $In_{Cc}$ | 0 | | | 24.6 | | |
| (weighted) $In_{Cc}$ | 0 | | | 0 | | |
| $Out_{Cc}$ | 3.9 | | | 2.2 | | |
| (weighted) $Out_{Cc}$ | 0 | | | 0 | | |
| $Dc$ | 0.16 | | | 0.2 | | |
| $In_{Dc}$ | 0 | | | 0.04 | | |
| $Out_{Dc}$ | 0.16 | | | 0.2 | | |

*Notes: * absolute values in $10^6$ current US$.*

## 4. DISCUSSION AND CONCLUSION

We applied our study on the case of the EU28 aerospace industry in 2019, for which we gathered data of all limited companies, including listed and public ones. Further, we extended the data and analysis also to the ownership partners of those 3243 companies, resulting then in 5571 companies, out of which 3527 have at least one connection. Our analysis showed clearly a sharp discrepancy, in both the restricted and extended networks, between the statistical and the structural representativeness and relevance of listed companies: while they are very much representative in statistical terms, they are not at all in structural terms. Of course, this conclusion straight depends on the indicators chosen for the representativeness and the relevance, and on the definition of these two concepts. We have proposed to take the mean and the share as the benchmarks of representativeness and relevance, respectively. However, especially for structural aspects, relevance should be accompanied or even can be replaced by the concept of crucial role, which is certainly vaguer than the previous two; but on the other hand, it seems useful and also rather intuitive.

When we consider the statistical dimension, then relevance is evident, because most indicators give them more than 50% of share. However, they seem to be not representative, because those same indicators are distributed according to a scale-free shape, where listed companies are placed at the extreme of their heavy-tail (Biggiero & Magnuszewski, 2021). When considering the structural aspect, then listed companies look representative only in terms of the value of the links sent to or received from the other companies.

If we move the attention to the pure structural aspects, like the number of links, the degree centrality and the betweenness centrality, which are ways to measure direct and indirect influence power, respectively, then we see that they are relevant but not representative in terms of degree centrality, because it is distributed in a scale-free way (Biggiero & Magnuszewski, 2021). Further, there are very few links between listed companies, definitely not representative of the structure and density of the whole network. They are not representative of average connectivity and do not play any crucial role in terms of betweenness centrality.

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# FINANCIAL LIBERALISATION POLICIES IN SUB-SAHARAN AFRICA

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### Abstract

The dawn of the 1980s saw most Sub-Saharan African (SSA) countries undertaking policy reform to abolish controls in their countries' financial sectors. These reforms were largely drawn from the framework of Structural Adjustment Programmes (SAPs) supported by the International Monetary Fund (IMF) and the World Bank. The main objective of the SAPs was to replace former protectionist economic policies blamed for economic and financial instability, with more market-oriented policies. Financial liberalisation adopted by many SSA countries entailed reform along several dimensions.

While different research bodies have produced several liberalisation indices, most financial liberalisation measures examined in the available literature focus on a limited number of African countries, are limited both in terms of time coverage as well as in scope. Thus, the truncated nature of such data limits its usefulness in analyzing the effects of liberalisation on long-run performance of financial sectors in cross-country and panel studies. This paper fills this gap in the literature by constructing a new set of liberalisation indicators using country by country information on the timing of seven liberalisation policies using the framework developed by Detragiache, Abiad, and Tressel (2008).

We make use of the questions and the coding rules from this framework to construct indices for the different facets of liberalisation. Each liberalisation dimension has various sub-dimensions. A score is

given for each of the questions that are set for a specific dimension. This raw score is then normalised on a scale of 0 to 3 where three corresponds to full liberalisation, 2 refers to largely liberalised, 1 means partially repressed, while zero indicates a highly repressed financial system. After assigning scores to the seven financial liberalisation policies, we derive a matrix of liberalisation, with scores for each dimension forming the columns of the matrix.

Using this methodology, the paper collects data that tracks efforts made in 26 SSA countries, over the 1986 to 2016 period, to abolish controls in the financial sector for the following dimensions: 1) credit controls and reserve requirement, 2) interest rate controls, 3) entry and activity barriers, 4) state ownership in the banking sector, 5) capital account restrictions, 6) prudential regulation and supervision of the banking sector, and 7) securities market policy. Thus, the indicators we construct provide liberalisation measures that capture the magnitude, pace, and timing of reform aspects, on a wide spectrum of SSA countries.

The financial liberalisation indicators constructed in this paper confirm that total financial liberalisation has been on an upward trend over the years, signifying concerted efforts by the government to allow market forces to determine market equilibrium in the financial sector. Our index for financial reform indicates that financial liberalisation was less gradual between 1986 and about 1992, accelerated sharply between 1993 and 2004 and slowed down between 2004 and 2016. This is likely because most countries had by then liberalised a greater part of their financial sectors. Furthermore, the data collected in this study indicate that although individual liberalisation components are correlated, interest rate liberalisation is the most advanced dimension for each year, in all the 26 countries. This is followed by the abolition of bank entry and activity restrictions, as well as bank privatization respectively. On the contrary, the least advanced dimensions are security market policies, international capital controls, as well as bank supervision and prudential regulation, respectively. The study recommends that SSA countries should put more effort towards the removal of capital account controls as well as implementing further reforms in order to update and modernize prudential regulation and supervision of banks in SSA as they remain highly constrained.

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SESSION 3: OWNERSHIP STRUCTURE AND DISCLOSURE

# CLIMATE CHANGE AS A NEW PERSPECTIVE OF CORPORATE GOVERNANCE DISCLOSURE: THE CASE OF ITALY

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## Abstract

Nowadays climate change represents the most critical issue facing the global economies, and, at the same time, the most misunderstood risk that organizations face in the coming years

Greenhouse gases emissions (GHG emissions) will cause further global warming, responsible for environmental and economic damages, even if there is still no exact estimate of timing and severity of physical effects (Masson-Delmotte et al., 2021; Abhayawansa & Adams, 2021; The Core Writing Team, Pachauri, & Meyer, 2014; Cotter & Nahjh, 2012; Cotter, Lokman, & Najah, 2011; Parry, Canziani, Palutikof, van der Linden, & Hanson, 2007).

In 2016, nearly 200 United Nations Frameworks Convention on Climate Change (UNFCCC) members have signed the Paris Agreement, dealing with greenhouse gas emissions mitigation, climate change, adaptation and finance.

The reduction of GHG emissions demonstrates a move away from fossil fuel energy to a transition of a lower-carbon economy which can cause economic losses to companies that do not adapt on time, but also

create opportunities for climate change mitigation and adaptation solutions.

Companies who develop a mechanism for protection against climate change and seize opportunities, including the ability to respond to transition risk and physical risk, are resilient to a lower-carbon economy, will last longer and their investors will experience higher returns.

This means that investors cannot avoid climate change, therefore, organizations and investors should consider long-term strategies and the most efficient way to allocate capital.

In this sense, many securities regulators and stock markets have begun to recognize that climate risks may be material to investors and financial markets, but existing current climate-related disclosures seldom provide information on the business financial implications of climate change (Aureli, Del Baldo, Lombardi, & Nappo, 2020).

The necessity to cover this gap leads to the spread of alternative disclosure frameworks, such as the Task Force on Climate-Related Financial Disclosure (TCFD).

The TCFD was established in December 2015 by the Financial Stability Board to "develop voluntary, consistent climate-related financial disclosures that would be useful to investors, lenders, and insurance underwriters in understanding material risks" (TCFD, 2017, p. iii).

The Task Force recognizes the significant threat climate change poses to the global economy and encourages disclosing consistent, reliable and clear climate-related financial disclosures enabling investors to take into account climate-related risks.

There is growing interest in having a clear and consistent disclosure by investors and shareholders. Effective disclosure focuses on transparency and risk analysis, which leads to well-founded investment decisions and a reduction in capital loss (Basuony, Elseidi, & Mohamed, 2014)

TCFD provides 11 recommended disclosures related to 4 thematic areas (governance, strategy, risk management, and metrics and targets).

In our research, we focus the attention on the thematic area of governance because we are interested in studying companies' awareness of climate change and the extent to which they assessed environmental issues, risks and impacts in relation to their business.

Investors, lenders, insurance underwriters are looking at the role at companies' board plays in be responsible for climate-related issues (Malik & Yadav, 2020; Gray, Walters, Bebbington, & Thompson, 1995; Gray, Owen, & Adams, 1996). This information allows users of climate-related financial disclosures to understand an organization's governance to assess if the board and management are taking enough care of these issues. Moreover, according to legitimacy and stakeholder theories, social and environmental disclosure is a valuable tool for influencing their external perceptions and legitimizing their business activities to stakeholders (Grove & Clouse, 2021; Osemeke, Osemeke, & Okere, 2020; Cotter et al., 2011).

We conducted an empirical analysis to investigate the level of companies' commitment to putting climate change risks at the forefront of their business strategy, risk management policies and objectives.

As far as concern the sample, we examined the latest available Consolidated Non-Financial Declarations (CNFD) of the major Italian listed companies.

This panel, excluding companies incorporated under foreign law and companies operating in the banking and insurance financial sector, consists of 22 companies as of September 30, 2021.

After a first reconnaissance of the physical location of the CNFD, in the majority of cases positioned within the Sustainability Report of the period, we carried out a content analysis of governance issues related to climate change, with particular reference to the requirements of the TCFD.

Among the major results of the analysis: the adherence to TCFD policies appears, on the whole, limited (slightly over 50% of companies), with a rather significant polarization of information, whereas of the 13 companies that explicitly confirm their adherence to TCFD, only 5 produce a report in strict and full compliance with the requirements of the task force.

Our findings, even if preliminary, provide interesting insights and implications both from a theoretical and managerial point of view, displaying that, in line with mimicry studies on corporate disclosure, the conduct of companies towards climate change disclosure suggests an imitative behaviour amongst competitors.

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# THE QUALITY OF SOES' ANNUAL FINANCIAL STATEMENTS. A CRITICAL ANALYSIS OF THE OECD GUIDELINES

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**Abstract**

National and international accounting literature and established accountancy laws now agree that the nature of invested resources, and — above all — pursued objectives, can modify the accountability of state-owned enterprises (SOEs). This accountability is characterised as being of public interest, and the efficacy of the statutory accounts model derived from the chosen business plan is consequently reduced. Based upon this hypothesis, the present work proposes an evaluation of the mandatory accounting regulations for Italian state-owned enterprises via an evaluation of compliance with the OECD guidelines of November 2015 regarding "disclosure and transparency". Although the work substantially evidences compliance with the majority of OECD recommendations, it also highlights a concentration of *non-compliance* in areas regarding company performance statements.

## 1. INTRODUCTION

With around eight thousand operational organisations reaching 13% of the total turnover of active companies, almost a million employees, over five thousand local administrations included in the share hold base and a ubiquitous presence in the provision of local services, public-owned companies have assumed a primary role in the economic, social and political life of the country (ISTAT, 2020). The economic stability of traditional stakeholders such as employees and suppliers, the quality of life of numerous citizens, the economic balance of participating administrations and, more generally, the level of efficiency and efficacy of a large part of public spending depends upon their performance and seamless functionality. This context generates a multitude of legitimate inquiry exigencies, spread between organisations that are extraneous to the direct management of the companies for which they are *reporting entities*, and, as described unanimously in accounting literature, must draw up their balance sheets while adhering to the highest qualitative standards, even when this results in a notable increase in production costs (Ball, 1988; McCahey & Ramsay, 1989).

On the basis of this premise, the present work proposes to evaluate the quality of the regulations disciplining mandatory accounting procedures within the Italian public administration system. These regulations are derived from the specifications of an adopted business plan because these companies do not lose their status as private enterprises despite the fact that their capital is augmented by grants from public organisations but, as has been clarified by the recently issued unified code, are still regulated under the civil code of justice. These same regulations have been developed based on suppositions that are not always valid when massive use of public resources preceded by the general interest in the final results of a business plan significantly modify accounting practices and generate stronger and wider-ranging cognitive exigencies (Capalbo & Palumbo, 2013). The subject has not escaped the attention of the OECD, which has confronted the problems of state-owned enterprise (SOEs) on numerous occasions, by formulating specific Governance recommendations (OECD, 2005), and by commissioning direct studies to analyse and evaluate the entity of the phenomenon (Christiansen, 2011; Kowalski, Büge, Sztajerowska, & Egeland, 2013; OECD, 2014). Finally, an entire section of the latest *Guidelines on Corporate Governance of State-Owned Enterprises* (OECD, 2015) has been dedicated to disclosure and transparency and in 2020 OECD has published a report about national approaches towards implementation of Chapter VI of the *OECD Guidelines on Corporate Governance of State-Owned Enterprises* (OECD, 2020).

**Table 1.** OECD guidelines on disclosure and transparency

| |
|---|
| ***Balance sheet minimum content*** |
| • A clear statement to the public of enterprise objectives and their fulfilment.<br>• Enterprise financial and operating results, including where relevant, the costs and funding arrangements pertaining to public policy objectives.<br>• Indication of any material or financial aid received from public sources.<br>• Any material foreseeable risk factors and measures taken to manage such risks.<br>• The remuneration of board members and key executives.<br>• Board member selection process.<br>• Any financial assistance, including guarantees, received from the state at a local or national level, and the correlated entities.<br>• Any relevant issues relating to employees and other stakeholders.<br>• The governance, ownership and voting structure of the enterprise, including:<br>o the content of any corporate governance code or policy and implementation;<br>o processes. |
| ***Audit regulations*** |
| • Annual financial statements should be subject to an independent external audit based on high-quality standards. |
| ***Data publication*** |
| • Information limits conceded to small businesses may not be extended to companies providing public services.<br>• The report must be compiled annually with recourse to intensive web-based communications in order to facilitate information access by all parties. |

*Source: OECD (2015).*

Although OECD guidelines are not mandatory for member states, they certainly represent the *best practice* that each country should respect in order to guarantee the usefulness of SOE financial statements at various government levels, and for public administrations in general.

As for other methodologies used within the OECD environment, the level of compliance will be stated based on its collocation in one of five distinct levels:

**Table 2.** The level of compliance

| | |
|---|---|
| Compliant | No difference |
| Largely compliant | Little differences |
| Partially compliant | Moderate differences |
| Non-compliant | Significant differences |
| Not applicable | Not applicable to a country's specific legal, environmental or institutional structure |

## 2. OECD GUIDELINES ON BALANCE SHEET MINIMUM CONTENT

The proposed guidelines may be usefully grouped into two specific areas:

- performance;
- governance.

## 2.1. Performance area

*A clear statement of enterprise objectives and their fulfilment*

The actual structure of a company's financial statement is principally aimed at measuring *performance* as related to the earning of profits for the company owners. When objectives change, however, and above all when they assume policy-making importance, a system centred on earnings and capital measurement is no longer sufficient to measure overall company performance (Pallot, 1992; Airoldi, Brunetti, & Coda, 2005; Marchi, 2011). In Italy, state-owned enterprises are not founded as profit-making organisations because they are intended as producers of goods and services that are strictly necessary to achieve the institutional objectives of the partners (Art. 4, d.lgs 175/2016). The demonstration of an economic result, therefore, although important for an evaluation of a capability to operate autonomously, is insufficient to demonstrate management of economic conditions and notably reduces profits — and consequently the quality of accounting. It would be better to establish dedicated indicators to verify the fulfilment of specific company objectives, but to this end — as recommended by the OECD — such objectives must be clearly stated in the annual report.

*Enterprise financial and operating results, including where relevant, the costs and funding arrangements pertaining to public policy objectives*

Fulfilment of specific public interest objectives imposed by political reasoning may mean forcing the adoption of decisions that lack a degree of economic rationality regarding the costs-earnings dynamics of a specific company. Specifying the costs necessary for the pursuit of these objectives would have the merit of isolating economic and financial performance from expenses devolved from social and/or policy decisions already defined by economics doctrine as inappropriate burdens that constitute "policy conditions than cannot be reasonably introduced into private company management and which entail specific public shareholder expenditures for state-owned enterprises" (Saraceno, 1981, p. 35).

*Financial assistance, including guarantees, received from the state at a local or national level, and the correlated entities*

OECD requests that SOE financial statements include a clear and exact presentation of all the agreements existing between the company and public administration, including guarantees, subsidies or other incentives, and any form of commitment assumed by the state in relation to company obligations. Adequate information is also required in relation to any form of public-private partnership, with particular regard to those pertaining to the creation of infrastructure and the provision of public services.

### 2.2. Governance representation area

*Any material foreseeable risk factors and measures taken to manage such risks*

This recommendation stems from the awareness that state-owned enterprises are very often subject to ambitious strategies corrupted by the presence of non-business targets. The pursuit of these objectives may expose significant risks that become even more intense for companies such as utility suppliers that operate in sectors subject to wide-ranging regulatory and economic changes. For these reasons, the OECD requires representation of *financial and operational risks*, and those risks related to the environment, safety at work, and tax dynamics.

*Remuneration of board members and key executives*

From the OECD perspective, the urgency for in-depth disclosure of administrator royalties is linked to the risk that lack of information may result in a backlash for public ownership. The OECD, therefore, requires that state-owned enterprises fall fully into line with listed companies by clearly representing both remuneration details and the procedures followed for their determination.

*Board member selection process*

Clear representation of the procedures followed for the selection of managers in state-owned enterprises is one of the ways in which to avoid the risk of choices being made, or perceived as being made, solely on the basis of company policy decisions.

*Any financial assistance, including guarantees, received from the state at a local or national level, and the correlated entities*

State-owned enterprises often establish numerous transactions with the internal capital holders. The OECD requires an indication of every government transaction, at both central and local level, while civil legislation only considers transactions with administrations having a stake in company capital.

*Any relevant issues relating to employees and other stakeholders*

In many cases, state-owned enterprises have been true reserves within which, thanks to decentralised contracting, certain classes of workers — or more often executives — have been guaranteed completely favourable conditions compared to those existing in the rest of the public sector to which they ultimately belong.

The information requested by the OECD recommendations is however more extensive than those required by Law Decree 33/2013, as they also comprise the modes of employee participation in social organizations and education and training programs as well as other particulars relating to relations with other stakeholders such as creditors, suppliers and the local community.

*The governance, ownership and voting structure of the enterprise, including the content of any corporate governance code or policy and implementation processes*

The public nature of the resources used by these companies certainly increases the ethical dimension of business activities and requires that the verification of legal compliance is recognized as a priority step.

## 3. OECD RECOMMENDATIONS FOR AUDIT

The OECD requires that state-owned enterprises, or at least the larger of these companies, are always subject to an external audit carried out on the basis of international auditing standards and specifies that this review cannot be replaced by other forms of control exercised by the state also through *supreme audit institutions* (e.g., Government Audit Office).

## 4. OECD GUIDELINES REGARDING PUBLICATION OF ANNUAL BALANCE SHEET

*Information limits conceded to small businesses may not be extended to companies providing public services.*

In general, literature and practices are unanimous in believing that the imposition of an obligation to draw up a high-quality balance sheet in *full compliance* with all accounting principles (General Purpose Financial Statements) can be justified only for *reporting entities*, i.e., those entities consisting of *dependent users*, or external subjects interested in the fate of the company, which have no tools outside of the budget that allows them to be informed. It follows that, where there are sufficient reasons to believe that certain bodies should not qualify as reporting entities, the granting of forms of differential reporting allowing budget production costs to be reduced must be sanctioned (Carsberg, Page, Sindall, & Waring, 1985; McCahey & Ramsay, 1989; Faux & Wise, 2004; Sorrentino, 2012). In a public shareholder company or in a company that pursues public objectives, the presence of *dependent users* is endemic and smaller-sized businesses are certainly not excluded. For this reason, it seems absolutely out of place that similar simplifications are granted to public companies because of size considerations (Capalbo, 2012), and the position expressed by the OECD totally excluding the possibility of extending any form of differential reporting to public-owned enterprises that pursue goals of social or public significance.

*The report must be compiled annually with recourse to intensive web-based communications in order to facilitate information access by all parties.*

## 5. CONCLUSION

The analysis carried out highlights how Italian legislation is not far off the mark from the indications provided by the international organization.

**Table 3.** Synopsis of Italian government compliance with the OECD recommendations on disclosure and transparency

| ***Balance sheet minimum content*** | ***Level of compliance*** |
|---|---|
| *Performance area* | |
| A clear statement to the public of enterprise objectives and their fulfilment | Non-compliant |
| Enterprise financial and operating results, including where relevant, the costs and funding arrangements pertaining to public policy objectives | Non-compliant |
| Indication of any material or financial aid received from public sources | Partially compliant |
| *Governance area* | |
| Any material foreseeable risk factors and measures taken to manage such risks | Compliant |
| The remuneration of board members and key executives | Compliant |
| Board member selection process | Non-compliant |
| Any financial assistance, including guarantees, received from the state at a local or national level, and the correlated entities | Largely compliant |
| Any relevant issues relating to employees and other stakeholders | Partially compliant |
| The governance, ownership and voting structure of the enterprise, including the content of any corporate governance code or policy and implementation processes | Largely compliant |
| ***Audit regulations*** | |
| Annual financial statements should be subject to an independent external audit based on high-quality standards | Compliant |
| ***Data publication*** | |
| Information limits conceded to small businesses may not be extended to companies providing public services | Non-compliant |
| The report must be compiled annually with recourse to intensive web-based communications in order to facilitate information access by all parties | Largely compliant |

The positive results achieved in the areas of governance, control and publicising must no doubt be largely due to subsequent interventions with which the government, first with Law Decree 33/2013 and then Law Decree 175/2016, has integrated the guidelines into the civil code of law.

There is a concern, however, regarding the concentration of non-compliance in the performance measurement area. A company that respects all applicable regulations and ensures operations are completely legal but is not capable of achieving its assigned objectives may damage public resources to a greater extent than that caused by individual acts of corruption and/or embezzlement.

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# THE EFFECT OF MANAGEMENT PRACTICE ON PERFORMANCE: THE MODERATING ROLE OF OWNERSHIP

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**Abstract**

While scholars agree that ownership matters for firm performance in general, the detailed effects are still debated. We argue that ownership impacts firm performance not only directly but also through implementing different levels of management practice that impact firm performance too. We show that interactions between ownership and management practice have positive and negative effects on firm performance depending on how different owners can exploit the benefits of management practices or not. In that sense, ownership moderates the effect of management practices on performance.

## 1. DATA AND METHOD

### 1.1. Source of data

We use secondary data published by the World Management Survey (n.d.). This has several benefits: 1) due to their sampling procedure the data are highly reliable and valid, also exemplified through several highly-ranked publications (Bloom, Genakos, Sadun, & Van Reenen, 2012; Bloom, Lemos, Sadun, Scur, & Van Reenen, 2014; Bloom & Van Reenen, 2010); 2) the data consist of a large set of firms in

18 countries on various continents and over up to seven years. Creating a dataset comparable in size and depth would not only be very time-consuming but is almost non-researchable.

### 1.2. Data structure

The original information was collected by applying an interview-based survey method, explained in detail in Bloom and Van Reenen (2007). For evaluating management practices, a blind technique was applied, which means that telephone interviews were conducted with senior managers where information about management practices was obtained without informing the interviewee about the evaluation procedure. To ensure the neutrality of the evaluation, a neutral listener additionally evaluated the manager's responses. Responses were coded on a scale with 1 as "worst practice" and up to 5 as "best practice". The management practices are structured into five groups: 1) operations management, 2) performance monitoring, 3) target setting, 4) leadership management and 5) talent management (World Management Survey, n.d.).

Among other information, the dataset includes data on the company's industry (SIC code), country of residence, the number of employees, annual turnover and return on capital employed (*ROCE*). Furthermore, the intensity of competition in the business environment was asked for, as well as documented whenever an enterprise of the sample went bankrupt during the observation period. Regarding the interviewed manager, his nationality and academic degree are collected.

In total, the data set contains observations of 2,927 enterprises over up to seven years between 2002 and 2010. In total 7,094 firm-years are available meaning that each enterprise was observed for an average of 2.42 years. The observed entities have ownership structures of dispersed shareholders, family ownership with or without external CEO, private equity, and government entities.

We utilize *ROCE* as a dependent variable. *ROCE* is calculated from earnings before interest and tax (EBIT) divided by capital employed. As a performance indicator, *ROCE* measures how profitable a company works with the capital it has invested. The *ROCE* ratio is particularly suitable since it is related to another parameter and thus increases comparability and is free of tax and interest effects (Bausch, Buske, & Hagemaier, 2011).

As explanatory variables, we adopt ownership structure and management score. To ensure adequate processing, the original types of ownership, presented in the second column in Table 1, are aggregated according to the first column. The new variable "*ownership*" is then coded by type as: 1) dispersed, 2) owner, 3) owner external CEO, 4) private equity, 5) government, and 0) others or NA.

**Table 1.** Coding the data

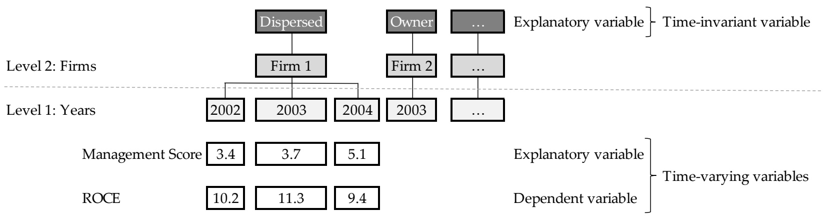
| *Coding* | *Ownership* | *No. of firm-years* |
|---|---|---|
| *DISPERSED* | Dispersed shareholders | 2,347 |
| *OWNER_EXTCEO* | Family owned, external CEO | 265 |
| *OWNER* | Family owned, family CEO | 1,090 |
| *OWNER* | Founder | 749 |
| *GOV* | Government | 225 |
| *OWNER* | Managers | 267 |
| *OTHER* | Other | 534 |
| *PE* | Private equity | 285 |
| *OWNER* | Private individuals | 1,061 |
| *OTHER* | (Empty) | 271 |
| Overall | | 7,094 |
| ***Results of re-coding*** | ***Firm-years*** | |
| *DISPERSED* | 2,347 | |
| *OWNER* | 3,167 | |
| *OWNER_EXTCEO* | 265 | |
| *PE* | 285 | |
| *GOV* | 225 | |
| *OTHER* | 805 | |
| Overall | 7,094 | |

The explanatory variable "*management score*" represents the result of an explorative factor analysis. The factor analysis aims to aggregate a large number of correlating variables to a small set of latent factors, where each factor explains as much of the variance of the original variable as possible (Klopp, 2010).

### 1.3. Panel data analysis

While the original authors analyzed the data cross-sectionally we decided to exploit the panel structure of the dataset. This allows us to analyze effects over time and firm-specific effects on firm performance. The data structure is schematically depicted in Figure 1.

**Figure 1.** Schematic data structure



There is a two-level hierarchical data structure with observations (years) at level 1 clustered into level 2 (firms). The dataset has a panel structure where individual firms are observed over a certain period (years) and a cross-sectional structure depicting variation between firms. This complex data structure has to be considered in the model. The application of a standard linear regression model would not be sufficient as it assumes that there is an independent and identical distribution of the residuals. In other words: the uniqueness of individuals within a group would not be considered. This assumption would be flawed with regard to the temporal hierarchical structure of the data, as these usually show a pronounced dependency over time (Bell & Jones, 2015).

Therefore, a panel model seems more appropriate. Specifically, the data set forms an unbalanced panel, i.e., a partial incompleteness of the values with respect to years and firms. In addition, a panel model is highly efficient in investigating a causal relationship including the time component in the sense of before-and-after observations while controlling for unobserved heterogeneity of individuals (Jaba, Robu, & Balan, 2017). The effects between or within individuals or groups are referred to as "within" or "between" variations. In this case, "within variation" is related to variability of management score over time per firm. "Between variation" relates to variation between firms, i.e., related to ownership.

If the influence of an explanatory variable is considered identical for each of the $N$ cross-sectional units, this is called a fixed effects model (FE). In this case, the coefficient of the explanatory variable is formulated as non-stochastic and identical for all cross-sectional units.

If there are random, unsystematic differences between the cross-sectional units in the influence of an explanatory variable, it is called a random effects model (RE). While the FE modeling is used more frequently in economics and political science and is referred to as the "gold standard", the RE model increases continually in popularity in various fields of science (Bell & Jones, 2015).

We employ several regressions to analyze the data, where $i = 1, \ldots, N$ individuals (cross-sectional units, i.e., firms) are observed over $t = 1, \ldots,$ T times (time-series, i.e., years).

*Regression 1: OLS with pooled data*

$$ROCE_{it} = \beta_0 + \beta_1 Score_{it} + \beta_2 OWNER_i + \beta_3 OWNER_{EXTCEO_i} + \beta_4 PE_i + \beta_5 GOV_i + \varepsilon_i \tag{1}$$

*Regression 2: Fixed effects model*

$$ROCE_{it} = \beta_1 Score_{it} + \alpha_i + u_{it} \tag{2}$$

where, $\beta_1$ signifies the coefficients the coefficient of the explanatory variable $Score_{it}$; $\alpha_i$ signifies the unknown entity-specific and time-invariant error term; $u_{it}$ signifies the error term which assumes to be uncorrelated with $X_{it}$ (here *Score*). The advantage of FE modelling is that it controls for all time-invariant entity-variations.

The difference is the estimation of firm-specific intercepts $\beta_i$ and given that ownership types are constant over time (fixed) and thus, are excluded from the regression.

*Regression 3: Random-effects model*

$$ROCE_{it} = \beta_0 + \beta_1 Score_{1it} + \beta_2 OWNER_{2i} + \beta_3 OWNER\_EXTCEO_{3i} + \beta_4 PE_{4i} + \beta_5 GOV_{5i} + \alpha_i + u_{it} \tag{3}$$

where, $\beta_0$ signifies the y-intercept; $\beta_1 \ldots \beta_5$ represents the coefficients for each explanatory variable; $\alpha_i$ signifies unknown entity-specific time-invariant error term; $u_{it}$ signifies the error term which varies over the entities and time; both are assumed to be uncorrelated with $X_{it}$. The advantage of RE modelling is that it estimates the effects of time-invariant variables.

## 2. DESCRIPTIVE RESULTS

Table 2 presents descriptive statistics for *OWNERSHIP* and *ROCE*.

**Table 2.** Descriptive statistics for *OWNERSHIP* and *ROCE*

| *Type of ownership* | *Mean ROCE* | *Firm-years* | *in %* | | *ROCE* | |
|---|---|---|---|---|---|---|
| No entry or "other" | 15.83 | 790 | 11% | | Min | -25.00 |
| 1 = *DISPERSED* | 17.57 | 2,325 | 33% | | 1st quartile | 5.35 |
| 2 = *OWNER* | 14.14 | 3,199 | 45% | | Median | 12.32 |
| 3 = *OWNER_EXTCEO* | 13.89 | 278 | 4% | | Mean | 15.50 |
| 4 = *PE* | 17.66 | 289 | 4% | | 3rd quartile | 23.26 |
| 5 = *GOV* | 11.38 | 213 | 3% | | Max | 50.00 |
| Overall | | 7,094 | 100% | | Std. dev. | 15.50 |

The average *ROCE* is 15.50% with a standard deviation of 15.50%. The spread of values can be explained by the different industries that the data set combines. However, the majority of values ranges between 0 and 20%. The sharp dividing line between frequencies below and above zero is striking, but the reasons for that are unknown to the authors. There is a difference of 2.68% between the mean (15.50%) and the median (12.32%), which can be explained by outliers, especially in the upper range. The *ROCE*'s minimum and maximum were artificially set during the original survey as "less than -25%" and "greater than 50%", resulting in a minimum of -25%, maximum of 50% and range of 75%. When comparing the average *ROCE* by taking the ownership structure into account, dispersed and private equity firms outperform with approximately 17.5% *ROCE*, indicating higher profitability than comparison groups. Owner-managed firms and family businesses with an external CEO show only slight differences in profitability, while state-owned enterprises perform at the lowest profitability level. These descriptive results are similar to the results of the original authors (Bloom et al., 2012).

## 3. CONCLUSION

The question of ownership and firm performance is part of an ongoing debate of understanding the impact of different types of ownership on various outcomes. It seems plausible that certain factors interact with each other and we postulate that this is the case with ownership type and management practice score.

In the present study, we re-analyzed archival data in order to test the postulated relationships.

While the ownership type of dispersed shareholders (*DISPERSED*) has on average the most favorable effect on firm performance, this effect can be surpassed for the owner type of the individual or family businesses with external management (*OWNER_EXTCEO*) if management is carried out above average. If the management quality is inferior, this effect turns into the opposite, and in the worst-case results in negative firm performance. On the other hand, private equity companies (*PE*) and state-owned enterprises (*GOV*) cannot reap the effect of good management. On the contrary, as the quality of management increases, firm performance successively decreases.

Further research should examine the theoretical framework of ownership type and its effect on the actions and decisions of managers. Questions arising from this are, why in some cases private equity companies and state-run companies cannot use the effect of good management for themselves. Furthermore, the country- and culture-specific influence in this context would also be interesting to examine.

Several limitations are worth noting: first, we analyzed secondary data. This circumstance limits more specific interpretation about the comparison group (*OTHER)*, as the authors are not familiar with the exact composition of this group. Second, the data depends on the statements of interviewed managers. Therefore, the data could be biased under the assumption that managers who are under regular observation in the form of interviews will pay more attention to the quality of their management practice and improve it accordingly, without the influence of the ownership structure. It should also be emphasized that there are countless factors that affect the success and profitability of an enterprise. In this study, only the interaction effects of a few of them are examined.

Nevertheless, we argue that this study sheds light on the role ownership plays in moderating effects of management practices on performance.

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# FINANCIAL ACCOUNTING MANIPULATIONS AND BANKRUPTCY LIKELIHOOD: A STUDY OF NORDIC BANKS

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## Abstract

The phenomena of accounting manipulations and bankruptcy likelihood have always been a topic of interest among researchers. The key objective of the current study is to examine the impact of fraudulent accounting practices on the likelihood of bankruptcy, and the performance of firms. Beneish M-score model and Jones model have been applied to evaluate earnings quality, whereas the Altman Z-score model has been used to analyze the level of financial distress. Based on the analysis of secondary data collected from 33 Nordic banks for the period 2011–2018, the findings disclose that Z-score of most of the sample banks has been found to be relatively high thus representing their high level of financial health. The study does not rule out potential earnings management measures applied by the sample banks. Furthermore, earnings manipulations increase the bankruptcy likelihood, especially in case of larger banks. The financial data manipulation practices *artificially* enhance the financial performance of banks, however, in a broad perspective; such manipulations can trigger potential financial distress.

## 1. INTRODUCTION

Nordic countries are well known for the high level of trust in every walk of life. Nordic countries have a distinction of being among the least corrupt countries in the world for a long time (Romberg, 2019). Nordic banks have recovered better than their other European counterparts after the financial crisis in 2008 (Berglund & Mäkinen, 2016). In general, the Nordic banking industry has been free from financial crime activities, for example, Nordic banks have experienced a minimal incidence of occurrence of anti-money laundering (AML) scandals. Unlike their other European counterparts, Nordic banks have been least affected by technological and operational process transformations, and this feature highlights the readiness of Nordic banks to adapt according to new developments in the fast-changing business environment.

However, in recent times there have been a few instances of the alleged involvement of several Nordic banks in money laundering scandals. This unhealthy phenomenon in the Nordic banking industry needs thorough academic investigation to understand its dynamics. Notably, the stock market reaction, after the accusations of manipulations were made against the concerned banks, has been highly adverse. For example, the value of Danske Bank's shares fell by half in one of the largest money-laundering scandals. Nordea lost one-fifth of its market value after its name appeared in several investigations related to financial wrongdoings (Milne, 2018). Between 2007 and 2015, 200 billion euros from uncertain sources have been channeled through Danske's Estonian branches ("Watchdog launches probe", 2019).

The abovementioned developments have raised doubts on the traditional reputation concerning honesty, trust, transparency, integrity, objectivity, and fairness of the Nordic banking industry. Several banking organizations in the region have come forward to erase the taints in their reputation. For example, Nordea has invested more than 730 million euros and recruited more than 1500 employees to fight financial crimes. Handelsbanken has hired more people having expertise in artificial intelligence (AI) to ensure secure and swift transactions.

Therefore, in the above-mentioned research background, the authors endeavor to explore the following highly relevant research questions:

*RQ1: Do accounting manipulations affect the bankruptcy likelihood of the Nordic banks?*

*RQ2: Do accounting manipulations influence the performance measures of the Nordic banks?*

The findings show that there is some evidence of the Nordic banks committing acts of earnings management in their financial reports. Similarly, a significant association has been found between discretionary accruals and bankruptcy likelihood. In other words, accounting manipulations, as *proxied* by Jone's model and Beneish's M-Score model, decrease Altman's Z-score value (i.e., increases the risk of bankruptcy of banks). Furthermore, a positive association has been found between accounting manipulations and the performance measures of banks.

## 2. REVIEW OF LITERATURE

Business organizations provide financial reporting and disclosures to communicate their financial health to the outside world. Financial information and data play an important role in affecting the financial decisions of investors, and other stakeholders. In the words of Ball (2008), "the financial reporting is as an important economic activity" (p. 2), as these reports provide information which can be useful in various aspects related to firm operations, investment, and financing decisions; assessing future cash flow prospects of the current and future projects; and estimating firms' existing, and potential resources as well as claims to these resources. True financial data underlines the true value of business organizations. In some situations, certain business entities may have the motivation to manipulate the financial results favorably to attract the capital and positively maneuver their stock prices, among other reasons. Similarly, on other occasions, the business organizations may attempt to show their financial results unfavorably to get favorable treatment from tax authorities and lending institutions. To minimize risks of any opportunities of hidden information and therefore to maximize the quality of financial reporting, the high standards of financial reporting are always in demand. Earnings persistence is a key characteristic of the quality of financial reporting. However, there are other characteristics too such as predictability, and significance of accruals (Nell, 2019).

One of the important facts about earnings quality is that it can differ across firms operating in different business sectors, even if there are not any manipulations in financial reporting. The reason for such disparity is that some firms need more forecasting and estimations, especially when it concerns fast-growing firms, which spend a significant amount of money on intangibles, R&D, and promotional activities. Mistakes in estimations can decrease the persistence of firms' earnings and incorrect valuation. Although the concept of earnings quality is vague, however, in real life it is possible to improve the quality of financial reporting if accruals can 'smooth out' unvalued changes in the cash flows. The principal objective of accounting standards is to make financial data reliable and relevant. *Reliable* information is easy to be checked and it should be reasonably free from mistakes. *Relevant* information is recorded on time and provides the opportunity to make a true valuation of a firm (Dechow & Schrand, 2004).

Melumad and Nissim (2008) have described true earnings as the combination of the following characteristics:

- conservatism — the quality conservatively estimated earnings is high since they are unlikely to be overstated in the sense of future performance;
- economic earnings — the quality of earnings is high when they are reported accurately and reflect the changes in the value of the firm according to its operational activities;
- persistence — earnings are of high quality if they are sustainable, i.e., the current level of earnings is approximately the same as future one; this definition relates to the volatility of earnings;
- stability — high earnings quality implies the law volatility;
- predictability — high quality of earnings means that earnings must be predictable.

One of the most important reasons why firms go bankrupt is the unfavorable effect of the macroeconomic environment on their performance. Macroeconomic risk is the main source for banks of systemic risk which has a huge impact on the performance of the banking sector. There is a strong correlation between the level of macroeconomic characteristics, such as interest rate, inflation, unemployment rate, and a firm's earnings.

Banks and other financial institutions face additional challenges concerning their balance sheet in comparison with their non-banking (financial) counterparts. Banks unlike other kinds of businesses have a huge part of their assets in loans. Loans are the least liquid and the riskiest asset. Therefore, if a bank has higher equity in a percentage of assets, it is less likely to fail due to its limited repayment obligations. In other words, the less equity a bank has, the less protection it has from loan losses.

The current study tests the following two hypotheses which will be formulated in the following way:

1 Do accounting manipulations affect bankruptcy likelihood?

*$H1_0$: There is no association between accounting manipulations and bankruptcy likelihood.*

*H1a: There is an association between accounting manipulations and bankruptcy likelihood.*

2 Do accounting manipulations influence banks' performance?

*$H2_0$: There is no association between accounting manipulations and firm performance.*

*H2a: There is an association between accounting manipulations and firm performance.*

## 3. RESEARCH DESIGN

Current research is based on multiple-source secondary data, which has been collected from sample banks' financial reports, including income statements, balance sheets, and cash-flow statements, of the Nordic banks. For the current research, the data of 33 Scandinavian banks have been obtained for the period 2011 and 2018. The data has been collected from financial reports of sample banks and the NASDAQ OMX Nordic database.

In the current study, two methods of financial reporting quality have been applied. The first one is Jones (1991) model based on discretionary accruals.

Another method of measuring financial reporting quality is the Beneish M-score model (Beneish, 1999). Beneish model detects changes in income and expenses. An abnormal increase in income as well as an abnormal decrease in expenses are a sign that earnings management is applied.

Altman Z-Score model has been applied to underline the likelihood of bankruptcy/financial distress experienced by a firm (Altman, 1968, 1973). The Z-score shows the state of a company, whether there is a risk of bankruptcy.

## 4. KEY FINDINGS AND CONCLUSION

The findings of the current study show that discretionary accruals have a negative impact on Z-score. In other words, the incidence of earnings manipulations increases the bankruptcy likelihood of banks. Similarly, banks having a higher market value of equity value have been observed to have a lower Z-score. Basically, the above result shows that larger banks are more likely to go bankrupt. Financial health is affected by two statistically significant predictors — discretionary accruals and equity value. Both variables decrease Z-score values.

The research also shows that the mean Z-score underscores the impressive financial health of the Scandinavian banks. The theoretical background highlights that the failure of large banks is impossible because governments control and secure the financial system from systemic risk. Although, there has been a decline in Z-score, however, the fall has not been too steep. Scandinavian banks are still in good financial health, in general, but their operating performance has worsened.

Overall, it can be argued that earnings manipulations can be a trigger of bankruptcy likelihood of Nordic banks. Earnings manipulations, as highlighted by various components of the Beneish M-score, show a statistically significant impact on the likelihood of financial distress of banks.

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## SESSION 4: CORPORATE GOVERNANCE AND RELATED ISSUES

# THE ROLE OF MONEY IN HYPERINFLATION VENEZUELA

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### Abstract

This literature review covers what has been written on hyperinflation in Venezuela, from the 1980s to the present day. Particular emphasis is placed on the role of cryptocurrency in the country and how the Venezuelan government has been using crypto, specifically the Petro, as a means to avoid further blunders with hyperinflation. From Hugo Chavez and "Socialism in the 21st Century" to the current regime of Nicolas Maduro, Chavez' successor, the printing of money in Venezuela has sky-rocketed to the point of the government needing cryptocurrency, such as Bitcoin, as a means of circumventing inflation to fund the government's ambitious social projects. A key element in its success, however, will be whether the Venezuelan people will opt to use the government-backed Petro, or whether they will opt to use a different, decentralized alternative digital currency to avoid the perils of hyperinflation. The study will examine this issue from several diverse points of view: specifically, the Austrian School (Echarte Fernández, Hernández, & Zambrano, 2018), the neo-Keynesian school (Pagliacci & Barráez, 2010), and public policy and institutional perspective (Corrales, 1999), among others. The research also includes a section for future research, including the rate and sustainability of entrepreneurship as the country shifts into a more free market-oriented regime change, the 'network effects' as new cryptocurrencies are introduced that rival Bitcoin, and whether the U.S. and other Western countries would

support the transition to cryptocurrency not run by the Maduro government as a means of liberating the oppressed Venezuelan people. The use of cryptocurrencies by governments, in particular socialist governments, is a new occurrence and merits much attention for the future of public and monetary policy in those countries.

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# QUALITY AND SAFETY OF ITALIAN SCHOOL BUILDINGS: TOWARDS A GOVERNANCE INDICATOR

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## Abstract

This study is the beginning of a project regarding the correlation between school governance and the quality of education. The conceptual framework is designed in line with the tools for assessment shown by Hocking, Stolton, and Dudley (2000) and with the key principles for the World Bank's WWF Alliance for Terrestrial Protected Areas (Stolton, Hockings, Dudley, MacKinnon, & Whitten, 2003). The scorecard model is composed of several performance areas including school governing body state, staff employment, parents and community roles. School improvement and development, mission strategy and the principles of good school governance are also managed. The other areas measure security and school finance management. Based upon the scorecard model, the purpose of the project is to measure key performance areas that contribute to good governance in terms of goals and indicators. A scorecard measuring of the quality and management in the public sector already exists and it is partially used also in the Italian school system (Baldacci, Brocca, Frabboni, & Salatin, 2015). However, this approach is limited so as it focuses on economic rather than learning outcomes. It is therefore necessary to identify specific indicators that summarize the characteristics of the Italian school system (among others see Eurydice website[1]) (OECD, 2012, 2020). The Italian legislation also

[1] http://www.indire.it/progetto/eurydice/

addresses the problem of securing school buildings. This study attempts to create a governance indicator based on the quality of the school structures and the safety of the buildings. The analysis is carried out here at the nomenclature of territorial units for statistics (NUTS) level by using ISTAT[2], EUROSTAT[3] and MIUR[4] datasets. Following Bezzina, Paletta, and Alimehmeti (2018) the next stages of this research will be a survey open to all Italian schools. The results of this research could be used to improve the quality of public schooling around the country.

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# CRYPTOCURRENCY: IS IT BECOMING A REALITY FOR ALBANIA?

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## Abstract

The aim of this study is to realize an analysis of cryptocurrencies in Albania. Cryptocurrencies have experienced tremendous changes in the last years, and have often been the subject of debates. Albania is one of the countries in which seems really difficult to have the opportunity of using cryptocurrencies as a payment tool, or as an investment alternative. Throughout this investigation, we will treat some of the main difficulties and challenges of the cryptocurrency market in Albania. As the study reveals, it seems that it has not been easy for Albanian investors to use cryptocurrency as an investment alternative, or use cryptocurrency as a payment tool. Anyway, what we can emphasize is the fact that we can see some positive steps in this direction. Even though it seems a slow process, the removal of some legal restrictions related to cryptocurrencies reflects the "break" of the "walls" that were serving as a barrier for them in Albania. Only the future can show this, so the only thing that we can do is to wait for it.

## 1. INTRODUCTION

The world in which we live nowadays has changed significantly in comparison with the one that we used to live in decades before. Technology is one of the means that has given the greatest help in facilitating people's life, and the pandemic situation of COVID-19 has proved how much it can be useful to people even in such a difficult time.

Everything, from our daily routine to our working habits, our investing choices, the way in which businesses, the payment tools, etc. operate, has changed significantly.

Cryptocurrencies are one of the innovations of the last years. Cryptocurrencies are considered virtual/digital currency that uses cryptography and has all the necessary security elements to avoid counterfeit. The usage of cryptocurrency as a payment tool has increased significantly, and it seems that the perception of cryptocurrencies as a "strange" tool has faded and it has already become a reality for many countries (Socol, 2020).

Cryptocurrencies have attracted a lot of attention, due to the increase of their importance and the significant role that they have, the role that seems to have become even more significant lately. This is one of the main reasons that has inspired us to make deeper research in order to see how is the market of cryptocurrency is functioning in Albania.

## 2. LITERATURE REVIEW

The issue of cryptocurrencies has attracted the attention of many people, due to the significant changes of the last years. Below we are making a summary of some of the main facts revealed by the literature review related to the topic.

Moid and Jain (2019) emphasize the impact that decentralization, the low cost of transactions, anonymity, and especially the use for illegal transactions have had on the demand for Bitcoin. They also reveal the high level of risk that it has, and emphasize the usage of Bitcoin as a means to avoid currency controls or tax evasion.

Sun, Dedahanov, Shin, and Kim (2020) discovered that personal innovativeness is one of the factors that has a great impact on the perceived risk, as well as switching intention. Those individuals that possess more innovativeness tend to risk more and tend to choose more investing in cryptocurrencies.

Lekashvili and Mamaladze (2018) revealed that Georgia has found some difficulties in developing the adequate policies needed to regulate the cryptocurrency market. They evaluate that cryptocurrencies may serve as a threat for central banks, which may make it more difficult for central banks to implement the monetary policy.

Socol (2020) found out that like everything new/innovation, also cryptocurrency is seen with skepticism in the beginning. It seems that this first impression of seeing cryptocurrencies as "utopia" has faded, since they have already become a means widely used by many individuals, organizations, financial institutions, etc.

## 3. AIMS AND METHODOLOGY

The aim of this research is to realize an analysis of cryptocurrency in the case of Albania, in order to reveal some of the main difficulties that Albanian investors have had in choosing cryptocurrency as an investment alternative. Our analysis will be based on secondary information, which will mainly be collected from the governmental institutions in Albania, from investment platforms dedicated to cryptocurrency, etc. This investigation consists of descriptive analysis and makes a combination of qualitative and quantitative analysis.

Some of the objectives of this research are:

- to analyze the challenges that Albanian investors have faced in investing in cryptocurrencies;
- to reveal the risks and benefits that may accompany the usage of cryptocurrencies;
- to reveal the phase in which the cryptocurrency market is in Albania and make a prediction about the developments in the future.

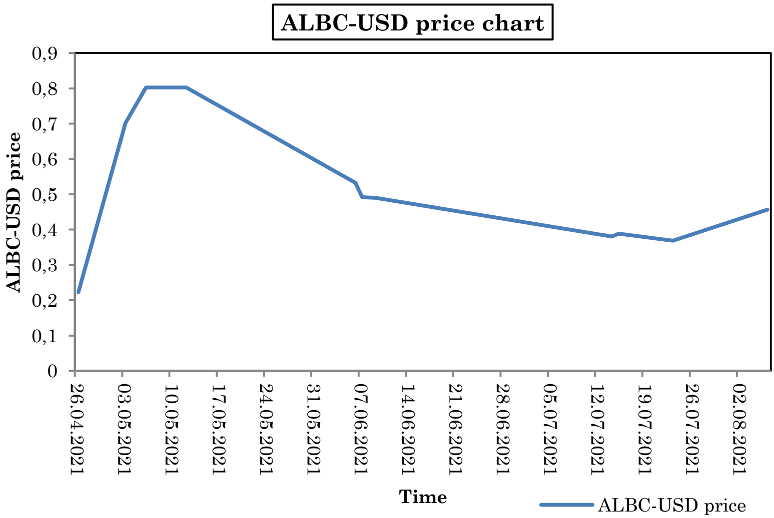
## 4. CRYPTOCURRENCY INVESTING IN ALBANIA

### 4.1. An overview of the cryptocurrency market in Albania

As previously mentioned, Albania is quite delayed in comparison with other countries in introducing cryptocurrencies. The first Albanian cryptocurrency, AlbCoin, was created in 2021. Other Albanian cryptocurrencies include AlbPayCoin and KosovaCoin. They come from different blockchains and can be bought and become part of the investment portfolio of the individuals. AlbCoin operates in the network of Ethereum and xDai, which are evaluated to be safer and more transparent on their transactions in comparison with Bitcoin.

AlbCoin come out in the market only after a three-year working period of the team who founded it. One of the factors that have impacted this long process has been the significant amount of the financial capital needed because possessing only the necessary knowledge is not enough to enter this market. The low level of knowledge of the individuals about this market has also had an impact on the level of usage of cryptocurrencies. This is reflected in the cases of fraud that have been discovered. There have been cases of individuals that were acting as cryptocurrency investors, and after having collected a significant amount of money from individuals got disappeared. The low number of transactions done reflects the fact that Albania is in its first steps of introducing cryptocurrency.

**Figure 1.** AlbCoin price in dollars 26.04.2021–02.08.2021




*Source: Moonstats (https://www.moonstats.com/).*

As the above figure shows, there is a tendency to increase the prices of AlbCoin, but it is insignificant if we compare it with some of the well-known cryptocurrencies. A major factor that has caused the delayed entrance of Albania into the cryptocurrency market is dedicated to the legal restrictions. Albanian government has been quite hesitating in approving it as a way to protect the economy as well as the citizens from the high risk that accompanies them. Another factor that might have impacted it is the fact that Albania has already had a negative experience with the pyramid scheme, which had a great negative impact on Albanian economy and society. This experience from the past has strengthened this protective attitude of the government, in order to avoid experiencing a similar situation to the pyramid scheme.

For those individuals that have been interested in investing in cryptocurrencies, it has not been easy, even now that they have received the legal approval. There are banks that don't allow their clients to make payments related to cryptocurrency investing. There are also ATMs as a possible way of buying it, but you cannot find an ATM in Albania or even Paypal that is also used as a payment method that does not offer its service for Albania. Albania seems to be the third country in Europe that approves them. One of the problems that arise is the one related to the regulatory framework, which seems not to be ready to get adapted to it. The potential that these virtual currencies can be used for money laundering makes them a tool with a high level of risk.

### 4.2. Benefits and risks of investing in cryptocurrency

We have constantly mentioned that cryptocurrency has faced several obstacles that have prevented the penetration of the Albanian market earlier. Let us stop for a moment. Is it worth investing in cryptocurrencies or not?

There are some benefits from investing in cryptocurrencies. One of the main advantages is the opportunity of high earnings. Some of the existing investment opportunities in the country in the last years have experienced deterioration in terms of earnings, which might have pulled investors towards seeing cryptocurrency investing. The decrease of the interest rates to the lowest level possible in Albania has transformed deposits into an investment opportunity that is not worth it.

When talking about the risks of cryptocurrencies, we can mention the fact that there is no regulatory authority in this market, which can offer security for investments. If we take into consideration the fact that Albania is a developing country, with a relatively low level of average income, cryptocurrency investing may serve as an important source of income. It also gives individuals the opportunity to participate in global opportunities, which is something positive as well.

## 5. CONCLUSION

What we can say at the end of our analysis about the cryptocurrency market in Albania is that maybe the fact that Albania is not a developed country, combined this with the negative experience that the country has had in the past with the pyramid scheme, makes quite difficult to get adapted to it. Despite the low level of knowledge about virtual currencies, and other obstacles, it is important to mention the fact that the country has undertaken the first initiatives to welcome them.

Of course that there are risks related to them as well as benefits from using them that need to be analyzed carefully. Our analysis revealed that even though developing countries tend to fear accepting these innovative solutions, the side of the benefits suggests that they should be allowed to be used. Momentarily, is highly debated the fact that cryptocurrencies might be the next bubble, which might have tremendous causes in the world.

In the end, we can say that if initially the cryptocurrency concept seemed to be an abstract and strange one, slowly it seems that it is on the right path for becoming a reality for Albania like it has already been for many other countries.

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# COMBINED ASSURANCE — A POTENTIAL INTEGRATED GOVERNANCE OPTION FOR SMES?

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**Abstract**

Against the backdrop of recent corporate scandals, but also due to increasing digitalization, the discussion about integrated approaches to corporate governance under the umbrella term of combined assurance (CA) is gaining in importance. Whereas this has so far been considered increasingly from the perspective of internal auditing, this article supplements the ideas of integrated corporate governance with an explicit view of compliance management in medium-sized companies. It is based on an empirical study of 141 companies conducted by the Aalen Institute for Corporate Management (AAUF) in 2021. The study compared, among other things, the three lines of defense (TLoD)/three lines (TL) approaches of the Institute of Internal Auditors (IIA) and the combined assurance approach, which are widely used in the literature.

## 1. INTRODUCTION

Recent corporate scandals, as well as comparisons with external and internal corporate governance systems in other economies, suggest that there is still room for improvement in the German corporate governance system. With the revised version of the German Corporate Governance Code (GCGC), the legislator has already taken a step in the right direction. Further new legislation such as the FISG (German Law on Strengthening the Financial Markets Integrity) and the StaRUG (Act on the Stabilisation and Restructuring Framework for Businesses) should lead to a further adjustment and professionalization of the corporate governance structures of German companies.

In corporate practice, it has been shown time and again that several problems complicate the work of internal and external monitoring bodies: First of all, decision-makers are still not sufficiently aware of the problems. In addition, compliance management, internal auditing, controlling and risk management are often not adequately staffed or budgeted. The often different assignment of the various functions to different departments and officers does not help to improve the coordination of data, instruments, systems and processes. Last but not least, the various monitoring functions also frequently use different or, optimally, only partially integrated IT systems.

Under generic terms such as governance, risk and compliance (GRC) or integrated governance, risk and compliance (IGRC), integrated approaches to corporate monitoring have long been called for. Whether this is necessary or "old wine in new bottles" (the German approach to monitoring already offers an integrated view) remains to be seen. However, the impulse for more integration is to be welcomed and can equally be discovered in the new version of the COSO Enterprise Risk Management (ERM).

It seems clear that corporate monitoring can benefit from an integrated framework in practice. The Institute of Internal Auditors (IIA) has already made a proposal in this regard with the fundamental TLoD model and its further development, the TL model, which is widely used in international corporate practice.

## 2. METHODOLOGY

For the empirical study of combined assurance (CA) in practice, data was collected using a standardized online questionnaire. The questionnaire contained both closed and open questions. The selection of the companies and the generation of their e-mail addresses were carried out randomly using the Nexis database. The survey was finally conducted in the period from February to March 2021, with a pre-test with several experts being carried out beforehand. 8,688 companies comprised the distribution list. However, 1,269 of the emails sent could not be delivered. Thus, 7,419 companies received the link to the survey. The questionnaire was accessed 141 times during the survey period, which corresponds to a participation rate of 1.9 percent. 56 respondents answered all the questions asked, while 85 ended the survey prematurely. Finally, the data were analyzed using Microsoft Excel and SPSS.

The questionnaire was structured as follows: In total, the survey consisted of 37 questions, which were divided into six sections. First, specific information about the company itself was asked. This was followed by questions about the company's compliance organization and other monitoring units, such as Internal Audit. The last three sections deal with the TLoD and CA approaches and the implementation status of the two concepts.

The clear majority of companies (80 percent) are sole proprietorships and not part of a group. With regard to the legal form of the companies, 68 percent operated as a GmbH (limited liability company), 4 percent as a GmbH & Co. KG (limited personal company), 3 percent as GbR (personal company), 2 percent as AG (stock corporation) and 23 percent as other legal forms. 63 percent of the companies were founded between 1990 and 2010, 19 percent before 1990 and 19 percent after 2010. 72 percent of the companies have fewer than 50 employees, 16 percent have between 50 and 249 employees and 12 percent have more than 250 employees. In terms of industry, 33 percent of the companies were in the service sector. A further 14 percent stated that they were active in the healthcare or social sector. Furthermore, the industry sector accounted for 9 percent, trade for 6 percent and banking and insurance for 3 percent. The remaining 35 percent fall into the "other/no information" category.

With regard to the company structure, 38 percent of the companies state that they are family businesses. In 39 percent of cases, the management is exclusively family-organized and in another 39 percent, it is both external and family-organized. 21 percent stated that they exclusively use outside management. The largest shareholders in the companies are partners (35 percent), family (35 percent), the public sector (13 percent) and private equity (9 percent).

## 3. EMPIRICAL RESULTS

First, the understanding of compliance was determined in the form of an open question. The majority of the definitions given overlapped: 36 percent of the respondents understood the term "compliance" to mean the company's adherence to rules, standards and laws. Other individual mentions relate, for example, to the transparency of business processes, the adaptation of internal processes to external conditions, and contract and insurance management.

The next question was designed to identify the goals and tasks of compliance. 88 percent of respondents state that compliance is used to comply with guidelines and standards. 60 percent of the respondents state the protection of reputation. 49 percent use compliance to increase the transparency of processes. For 47 percent, compliance has the task of reducing liability. 16 percent say they use compliance functions to increase competitiveness. 12 percent say it is to reduce costs. 7 percent are concerned with goals such as increasing the value of the company or ethically responsible corporate management.

After the respondents were asked about their understanding of the term "compliance", this question provides information on whether the companies have a compliance organization or at least a compliance officer. This showed that 33 percent have an organizational unit or a person responsible for compliance management in the company organization. Accordingly, 67 percent stated that no one is explicitly entrusted with compliance within the company.

Of the companies surveyed, 67 percent use controlling as an additional monitoring unit alongside compliance. 36 percent name the supervisory board/advisory board as an additional monitoring unit. 33 percent cite risk management. 27 percent name internal auditing as an additional monitoring unit. 12 percent mention other units such as quality management or budget monitoring.

The companies were also asked to rank the involvement of corporate bodies in the work of the monitoring units. 76 percent (58 percent decision and 18 percent participation) state that the board of directors or management is involved in the work of the monitoring units. In contrast, the respondents state that the annual general meeting (61 percent not at all and 10 percent consultation/information) and the supervisory board/advisory board (39 percent not at all and 32 percent consultation/ information) are only slightly involved.

Whether internal auditing is an independent department in the company surveyed was answered by 46 percent with "Yes". Accordingly, 54 percent of the companies stated that internal audit is not an outsourced department.

In contrast to the previous question on the autonomy of internal auditing, the survey also asked about its independence. In this context, 35 percent of the respondents stated that Internal Auditing is not an independent body at all. A further 13 percent described internal auditing in their company as not very independent. A medium level of autonomy was reported by 16 percent of respondents. In contrast, 35 percent have a strongly independent internal audit department.

The TLoD model is not known to 81 percent of the subjects. In contrast, 19 percent said they were familiar with the TLoD model.

That they are familiar with the CA approach was indicated by 10 percent of the participants. Accordingly, 90 percent had no knowledge of the integrated governance approach.

11 percent of the companies use the TLoD approach. 5 percent use the CA approach, although multiple answers would in principle have been possible.

## 4. OUTLOOK

The cooperation between internal and external supervisory bodies and monitoring functions such as internal audit, compliance, risk management and control is crucial to the success of a company. The "*three lines of defense*" approach and, in particular, its further development "*combined assurance*" are valuable concepts for increasing the quality of monitoring.

The goals and tasks of compliance are described by the clear majority of the sample as adherence to guidelines and standards.

33 percent of the companies have a compliance officer, and 42 percent of them have a management board. Additional monitoring units are controlling (88 percent), a supervisory board or advisory board (36 percent) and risk management (33 percent). Furthermore, almost half of the companies use an internal control system (ICS), which is usually subordinate to management or control. With regard to internal auditing, 46 percent have an independent department, although only 30 percent carry out regular audit planning.

The TLoD model is known to 19 percent of respondents — 11 percent have implemented it. 67 percent consider the implementation experience to be good. The main challenges are a lack of knowledge about the concept, cooperation and coordination between the individual lines, and compliance with legal and regulatory requirements. The CA approach is known to 10 percent of participants and implemented by 5 percent. The opportunities of the applications are considered to be high. Finally, 86 percent of the participants state that the availability of audit and combined assurance experts on the labor market is low.

Overall, the study shows that both TLoD/TL and CA have been little known and hardly implemented to date. This is certainly not only, but also due to the rather medium-sized character of the sample. However, statistical analyses show that even the larger companies in the survey have only a moderate level of implementation. In addition to qualitative follow-up studies, a great deal of persuasion work will have to be done here in the future in order to communicate the advantages of integrated approaches to corporate monitoring and corporate governance even better. Companies, but above all researchers and academics, should pay greater attention to the assessment by practitioners that there are hardly any experts who have knowledge of integrated approaches to corporate monitoring and corporate governance. There seems to be not only a subjective but also an objective shortage of experts in this field, which must be remedied.

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# PUBLIC-PRIVATE PARTNERSHIPS: A PROFITABILITY ANALYSIS OF THE PARTNERSHIPS IN THE ENERGY SECTOR IN ALBANIA

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## Abstract

The aim of this study is to realize an analysis of public-private partnerships (PPPs) in Albania. Our focus will mainly be the PPPs in the energy sector. Public-private partnerships contracts have experienced a significant increase in the last decades in Albania. They have had a great impact on public finances of the country, this is why they have often been "attacked" for the negative impact that they might have on the actual and especially the future of the country. We will work to make a comparative analysis of the cost and benefits that Albania has had from signing these contracts. We will also work to analyze the management of these public-private partnerships during the pandemics, which will be helpful to reveal the possible difficulties that the government might have in managing them. Something that has inspired us to make a deeper analysis of them is related to the energy crises that the country has experienced in the last years. We want to "dig" deeper in order to see if these PPPs are really worth it or not. Is it worth or it brings a burden for the actual and future generations of Albania?

## 1. INTRODUCTION

Public-private partnerships (PPPs) are seen from different points of view, by taking into consideration the legal components, the financial aspects, etc. They have often been subject to public discussions and debates, which may be related to the great impact that they have. We are now living in a moment, in which the pandemic situation of COVID-19 has changed significantly many things for everyone, including here individuals, organizations and governments. If we see the impact that COVID-19 has had on Albanian economy, it has been really significant.

COVID-19 found Albania in a difficult moment when the country was working to get recovered from the negative consequences of the earthquakes of the previous years. Despite the significant number of lives lost, the earthquakes caused an unpredicted increase in public expenses. Governmental finances are still experiencing a delicate moment, in which the level of the public debt is reaching the highest levels. PPPs have often been part of hot discussions, because of the significant weight that they have, by reaching the highest level with 35% of the gross domestic product (GDP) in 2020. They have often been blamed for the negative impact that might have, not only on the actual situation of the public finances but also on the future, since they may cause a burden for the future generations of Albania.

## 2. LITERATURE REVIEW

Public-private partnerships are one of the issues that have often been the subject of hot debates, due to the significant impact that they have. Below we are making a summary of some of the main information revealed from the literature review.

Costantinescu (2012) has focused on public-private partnerships in the case of health insurance services in Romania. They emphasize the fact that PPPs serve as a better option when talking in terms of the cost of the product/service that are offered through them. Their research revealed that the efficiency of the health insurance services gets improved by choosing public-private partnerships, which comes from the combination of the characteristics of both sectors.

Gjini (2017) has focused on the usage of public PPPs as a way to improve the quality of public services in Albania. What this research emphasizes is related to the importance that needs to have the legal framework, anyway they emphasize the fact that despite the negative effect that they might have they are a better option than total privatization. Overall, PPPs bring out acceptable results, but there are also some problems like unreliable competition, inefficient study, etc.

Keçi (2020) get focused on the analysis of public-private partnerships from a legislative point of view, as well as the risk management in Albania. They emphasize the positive fact that there is a dedicated unit for the development of PPPs, as well as the fact that these agreements allow a phased construction. This may help in eliminating the overvaluation of the costs. Regarding the weaknesses of PPPs, they mention the poor competition, unsolicited proposals, lack of valuation of sustainability, etc.

Liman et al. (2021) analyze PPPs in the case of hemodialysis in Nigeria, by getting focused also on the profitability comparison with the private subjects that operated in this field. They revealed that these partnerships had helped in increasing the availability of dialysis service, but not in improving kidney transplants. They suggest the possibility for additional PPPs in this field, or better management of these services even when talking about the private sector, which might be focused more on the profit rather than on the quality of the services that they offer.

## 3. AIMS AND METHODOLOGY

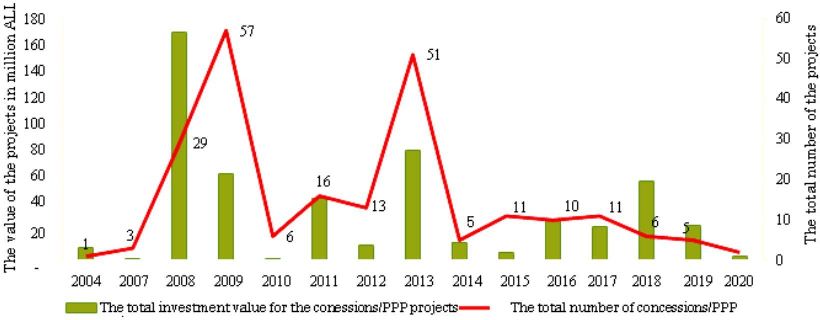
The aim of this research is to realize an analysis of PPPs in Albania. Our work will mainly consist of the PPP contracts that are signed in the energy sector in Albania. The government has signed some PPP contracts in the energy sector that have had a really important impact on the government budget as well as on the economy. We will work to discover the efficiency of these contracts, as well as to make a cost-benefit analysis. Our analysis will mainly be based on secondary information and will be a combination of qualitative and quantitative analysis. Some of the main objectives of our study are:

- to analyze the evolution of PPPs in Albania in the last decades;
- to reveal the impact of COVID-19 in PPPs in the energy sector;
- to analyze the efficiency of PPPs in Albania;
- to make a cost-benefit analysis of PPPs in the energy sector.

## 4. PUBLIC-PRIVATE PARTNERSHIPS IN ALBANIA

The public-private partnerships trend shows a significant increase in PPP contracts, especially after 2000. The main reason for using them has been for financing public projects as well as for building the public infrastructure. During the period of 2005–2013, as a part of the initiative of the privatization of the local hydropower, some of the small hydropower got privatized and some others were given to foreign companies through the contracts of the rehabilitate-own-operate (ROT), build-operate-transfer (BOT) and build-own-operate (BOO) types. These contracts were used as a way of rehabilitation of the existing hydro powers, their operation as well as transferring them to the state.

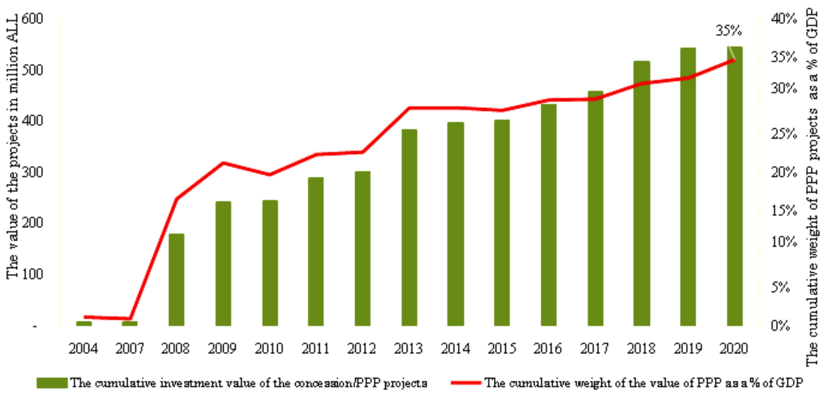
**Figure 1.** The trend of concessions/PPP projects signed during the period of 2004–2020




*Source: Ministry of Finance and Economy (https://www.financa.gov.al/).*

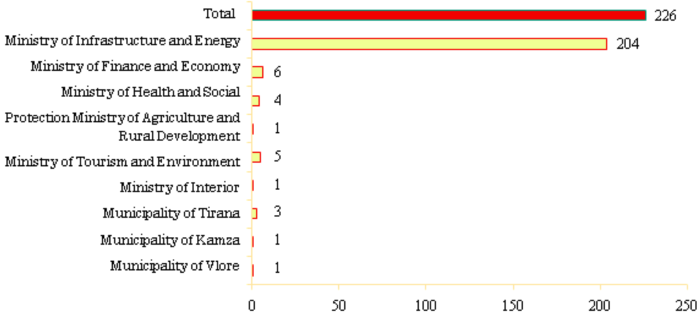
Some other contracts have been used to help increase the hydric power of the Albanian economy by exploiting unused hydric resources. Albania has signed 50 concession/public-private partnerships after 2013, in sectors that have had a significant impact on the economic development of the country, as well as in helping to assure sustainable economic growth in several economic sectors (education, health, environment, etc).

**Figure 2.** The cumulative weight of concessions/PPP projects as a % of GDP, 2004–2020




*Source: Ministry of Finance and Economy (https://www.financa.gov.al/).*

**Figure 3.** The number of concessions/PPP agreements according to the contracting authority that has underwritten the contract




*Source: Ministry of Finance and Economy (https://www.financa.gov.al/).*

As we can see from the above figure, the greatest part of the contracts (PPPs and concessions) include the infrastructure and energy sector. The energy sector includes 186 contracts, with a total value of 419,4 billion of ALL (Albanian Lek). One of the main reasons why we have chosen to deepen our analysis on this sector is related to the significance that they have on the public finances. The current energetic crises of the country have been another factor that has inspired us to undertake a more detailed analysis of this sector. The focus of our work will be the analysis of these partnerships by making a quantitative analysis of the costs and benefits for Albania, but also a descriptive analysis of issues that go beyond the quantitative analysis.

## 5. CONCLUSION

As our analysis revealed, public-private partnerships have played a significant role in the Albanian economy. The energy sector is one of the sectors in which PPPs have been widely used. The value of the PPP contracts includes great amounts of money, and it has increased significantly in the last years. If we take into consideration the fact that the total investment value included in these PPPs has been a significant part of the Albanian GDP, by reaching 35% in 2020.

Despite the work that the government has done to improve the functioning of the energy sector, it seems to have been quite difficult to create a sustainable development of it. What still remains concerning is related to the great negative impact hydropower has had in the Albanian environment as well as in terms of the cost of the energy that Albanian citizens have to pay. What the results show is that these partnerships seem to cause a burden for future generations and also the fact that despite their usage and costs, the country still has not managed to have a sustainable development of the energy sector.

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# HIGH PERFORMANCE WORK PRACTICES AND EMPLOYEES WELL-BEING: THE ROLE OF WORK INTENSIFICATION AND SELF-EFFICACY

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## Abstract

The well-being of healthcare workers is a major concern for healthcare organizations due to their significant impacts on performance and productivity (Ta'Amnha, Samawi, Bwaliez, & Magableh, 2021). Therefore, healthcare organizations employ various strategies and practices to create and maintain healthy and positive working environments for their workers. In this study, our focus was on the impact of high-performance work practices (HPWPs) on the healthcare workers' health and well-being.

HPWPs are a collection of several interdependent human resource (HR) practices that are employed to enhance the performance of organizations. Even though there is no consensus pertaining to the components of the HPWPs framework, typically it integrates job autonomy, team working, staff training, performance management, supportive leadership, and other capability-enhancing practices.

HPWPs boost positive job attitudes and behaviors in organizations that therefore lead to positive organizational outcomes. However, some research revealed that HPWPs increase the work intensification among

workers. This is because HPWPs require exerting intense effort from employees that therefore leave them unable sometimes to perform all their jobs' requirements effectively. This standpoint receives very limited attention in the literature; therefore this research aims to contribute to filling this gap by examining whether the HPWPs increase employees' feeling of work intensification and whether this situation leads to destructive consequences on the employees' health and well-being.

In addition to the organizational resources, this study focuses also on the role of personal resources (i.e., self-efficacy) on the employees' health and well-being. Self-efficacy refers to the individual believing that he or she is able to perform their tasks effectively (Bandura, 1997). We proposed that employees with a high level of self-efficacy are more likely to meet their jobs requirements more effectively and experience less work intensification (Ta'Amnha, Bwaliez, & Magableh, 2021). We assumed that both organizational resources and personal resources work hand in hand in improving employees' experiences. Therefore, we employ two theories to underpin this research and interpret its results including job demand resource model (JD-R model) (Bakker, Demerouti, & Euwema, 2005), and behavioral plasticity theory (Pierce, Gardner, Dunham, & Cummings, 1993). The former assumes that every job has its specific risk factors associated with job stress or burnout. These factors are grouped into two categories namely; job demands and job resources that institute a holistic model that can be adopted to explain several occupational settings regardless of the associated demands and resources.

Job demands refer "to those physical, social, or organizational aspects of the job that require sustained physical or mental effort and are therefore associated with certain physiological and psychological costs" (Bakker et al., 2005, p. 170). Whereas job resources refer to "those physical, psychological, social, or organizational aspects of the job that (a) are functional in achieving work goals, (b) reduce job demands and the associated physiological and psychological costs, or (c) stimulate personal growth and development" (Bakker et al., 2005, p. 170). According to the JD-R model, there are several and diverse job resources that represent a buffer for numerous and various job demands. Job demands and job resources in any given organization are determined by the jobs design and characteristics. We assumed that the resource offered by organizations to their employees through HPWPs enhance their well-being and health and their ability to deal with their jobs' challenges.

The moderating effects of self-efficacy in this study were explained via the behavioral plasticity theory (Pierce et al., 1993). This theory assumes that the changes in individuals' behaviors are caused by exposure to external stimuli. According to the behavioral plasticity theory, people with low self-efficacy are more likely to be influenced by the workplaces conditions and circumstances. They are more vulnerable to the lack of organizational supports but more malleable to the increase in organizational support (Turban & Keon, 1993). On the other hand, individuals with a high level of self-efficacy are less affected by external influences (Liu, Cho, & Putra, 2017). They are more persistent and determined to reach their goals through a high level of engagement compared with low self-efficacy employees. Thus, they feel less stressed from their demanding work that therefore improves their well-being and protects their health, thus they become more resilient.

A quantitative survey was used to collect the research data from the healthcare workers who are working in Jordanian hospitals. The questionnaire was administrated in Arabic. All measures were translated from English to Arabic using a standard translation procedure (i.e., back translation) (Brislin, 1980) to ensure the content validity of the measures. 238 useable surveys were collected through a convenience sampling approach

The results of this project revealed the pivotal role of healthcare institutions in enhancing the health and well-being of their workers, and ultimately their performance by offering more support and resources, particularly during the current COVID-19 pandemic. This is because healthcare workers suffer from a high level of stress and anxiety caused by the fear of getting infected, more family pressure, especially after closing schools and nurseries. These pressures may affect their satisfaction at work, and increase the feeling of job burnout that thus impact their performance negatively, therefore offering several sorts of support for those workers enable them to deal with COVID-19 challenges more effectively and experience more satisfaction in their jobs (Ta'Amnha, Bwaliez, Magableh, Samawi, & Mdanat, 2021).

We found that by offering more HPWPs, healthcare workers experience better health and well-being, however, we also found that work intensification may reduce the positive impact of HPWPs. As expected, self-efficacy increases the positive impact of HPWPs on healthcare workers and reduces the impact of work intensification.

In conclusion, healthcare organizations can get the best out of their workers by offering them more organizational resources and enhance their personal resources.

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# CONFERENCE FORUM DISCUSSION

## THE INFLUENCE OF CEO GENDER DIVERSITY ON EARNINGS MANAGEMENT AND CORPORATE OVERINVESTMENT: A RESEARCH AGENDA

***by Ahmad Alqatan, Bilel Bzeouich, and Amal Aguir***

***Alex Kostyuk***: Dear Bilel, welcome at our conference forum. Your study is quite important from the point of view of contribution to the recent body of the literature in the field of diversity issues related to gender of CEO. You concluded about the positive relationship between the CEO gender diversity and the corporate overinvestment. Do not you think that this conclusion should be considered just as the first stage of such sort of study? I mean that to be actually applicable in practice you should move further to explore the entire components of this gender issue (experience of women as CEO, industrial expertise, education, previous professional performance)?

***Dmitriy Govorun***: Dear Bilel, thank you very much for your research attempt to analyze the relationship between the earnings management and investments. At the same time, the paper tries to look into the role of CEO gender as a corporate governance mechanism and its influence on performance and overinvestment. However, it would be also good to know whether you counted/measured the level of CEO freedom for investment decisions. I mean that the board will finally approve the investment decision and I expect some committees should evaluate it according to the risk profile and policy prior. Thanks in advance.

***Chan Du***: Dear Bilel, your research is very timely in the current field of gender impacts on the relationship between earnings management and corporate overinvestment. A future battery of robustness tests may include board gender diversity or CFO gender diversity impacts on the relationship of the female CEO's moderating role between earnings management and overinvestment. For example, Liu, Neely, and Karim (2021) examined the impact of CFO gender on corporate overinvestment, and Ullah, Majeed, Khan, and Fang (2020) examined female CEOs and investment efficiency. In addition, I find that the modified Jones' model (1996) and Kothari et al.'s (2005) performance matched modified Jones model may need further explanation. For example, the formula in your paper used

$$DA_{i,t} = \alpha_0 + \alpha_1(\Delta CA_{i,t} - \Delta CCR_{i,t}) + \alpha_2(PPE_{i,t}) + \alpha_3(CFO_{i,t}) + \varepsilon_{t-1}$$

instead of

$$TA_{i,t} = \alpha_0 + \alpha_1(1/Assets_{i,t}) + \alpha_2(\Delta CA_{i,t} - \Delta CCR_{i,t}) + \alpha_3(PPE_{i,t}) + \varepsilon_{t-1}$$

Thank you in advance.

***Alex Kostyuk***: Dear Chan Du, I find your comment very applicable. Yes, recently there are many excellent papers in this field of research providing a base for comparison in the context of the research methodology. I hope that Bilel will find your advice useful.

## MIND BIAS BEHIND BOARD DECISION-MAKING

***by Pedro B. Água and Anacleto Correia***

***Alex Kostyuk***: Dear Pedro and Anacleto, I found your paper much promising from the point of view of its applicability in practice. You underlined that better board development through adequate training with a focus on critical thinking and decisions analysis helps in preventing mind traps, while for organizational repair it needs deeper organizational learning. I agree with you absolutely, but my concern is about the recent state of board development as a process. Do you think that recently in worldwide practice this issue is missed by many companies? A focus on the board development has been fixed a few decades ago but the recent practices still need to be enhanced.

***Pedro B. Água***: Dear Alex, thanks for your kind remarks. Indeed, we think in nowadays world with its increasing complexity, fast pace, these issues are perhaps even more important. Bringing structured processes is a positive step, however, that is not a replacement for "prudence" — the practical wisdom we see when we study the classics — something that may not be as common in high stakes decision-making fora as is the case of boards and committees. Anyway, this study is just halfway into its development, and now we are focusing on the organizational repair "line of defence"... something we want to finish in 2022.

***Alex Kostyuk***: I think that the issue of board development is still in progress worldwide. I could come to from an opposite side of this issue — the board assessment. Practices are very different and in many countries even are far from the initial stage. In this context, the board development is an even more complex issue.

***Pedro B. Água***: Couldn't agree more, Alex. Like the case of the elephant the blind men. There are always distinct perspectives on an issue. Perhaps none is right, most of the time... and they all complement each other.

***Alex Kostyuk***: This is an idea to fix and proceed through researching, Pedro.

***Karen M. Hogan***: I find your hypothesis very interesting regarding how mind bias can affect the firms. This is an important rationale for having as diverse of a board as possible so that open thought will be a larger part of the board discussions.

***Mohamad Hassan Shahrour***: Dear Pedro and Anacleto, I find your article very interesting and especially that the historical events are a clear evidence behind such bias. Furthermore, I would suggest maybe it could be interesting to address the moderating role of national culture in the examined relationship, given that our decisions could be, to an extent, influenced by our own norms (which is in turn influenced by the national culture).

***Pedro B. Água***: Thanks for your comments, Karen. A diverse board is the way. However, with diversity comes different views of the world and therefore more bias and potential conflicts within board dynamics. Nonetheless, it seems to me that such will be the way.

Thanks for your comment, Mohamad. Indeed I believe you are absolutely right. But as I just answered Karen in this trail, diversity — of which national cultures also determine diversity — brings additional lenses in the way one sees the world and the issues to be dealt with within boards, which by its side is another source of "board dynamics". Thanks.

***Leonella Gori***: Dear Pedro and Anacleto, your article is very interesting, focused n a theme rarely studied with such a precision. Thanks.

***Pedro B. Água***: Thanks for your comments, Leonella. You are welcome.

***Leonella Gori***: Thank you, Pedro. Appreciated.

# FIRMS' LIFE STAGE AND DIRECTORSHIP NEEDS: A RESEARCH AGENDA

***by Pedro B. Água and Anacleto Correia***

***Keith Harman***: Enjoying the paper by Pedro Água and Anacleto Correia on firm lifestage and needed directors. The paper is well organized. The effort to build a taxonomy is exactly what is needed at this stage. A key variable impacting board composition is how board members are selected. I am wondering if the authors have considered how well their model applies to NGOs as well as governmental entities.

***Alex Kostyuk***: Dear Pedro and Anacleto, I liked your thesis that "the question of "what is an ideal board of directors" is not the right question to place, as it depends on several dimensions, as for instance the business specifics and industry, the economic context, but also the specific life stage giving shape to a firm's paradigm". What thesis could be more suitable in this way? Probably, "an optimal board of directors" or "a matchable board of directors", or anything else?

***Pedro B. Água***: Dear Keith, thanks for your kind remarks. A taxonomy is indeed — from our point of view — always the first step. As in biology, one needs to give names to the "species" (classification) before we are able to manage them. We didn't apply this very preliminary taxonomy to NGOs at this stage. More work and research are being done on this subject. We also wonder if there are structures that in abstraction are all the same regardless of considering the mercantile world, NGOs or otherwise... a potential pattern we want to clarify.

Dear Alex, thanks for your kind remark. Actually, we quite often analyse a problem with the wrong framework. Nowadays I follow some three conferences on corporate governance on an annual basis (Virtus being one of them) and the term complexity has a growing presence, even if academics and practitioners use terms other than "complexity" when they express themselves. Companies and organizations at large have periods of stability and periods of growth on which "transition" dynamics increases risks at several levels until it stabilizes at another "threshold" of development. It is, in our view, in these transitions between stages that things may go wrong. However, identifying several stereotypes of directing (governance) structures is the first step. We already identified some, but the research keeps going in order to extend the taxonomy. Obviously, at some point it may demand a bit of complex systems modelling, a subject not common in management teaching; but that would be another study.

***Alex Kostyuk***: I see your point, Pedro. So, you try to match the right corporate governance framework to the recent stage of the company goes through. So, in this case, other issues, like industry, become to play a secondary role, but the company identity issues become the priority?

***Pedro B. Água***: Yes, that's where we believe explanation is heading. If we borrow the analogy with a ship, while the ship will be the same she/it will face challenges every time it has to face turbulent waters, where more power (energy/financing/manoeuvres/changes in strategy & operations) to reach a different "sea". If we take a firm from its start-up stage or an SME stage, that seems OK for a while. As soon as the firm aspires to grow, that step will bring complexity via acceleration in production, services, portfolios, etc., sometimes also demanding internationalization, and more complex operations. So far we are putting effort into identifying more stereotypes before we start diving into additional cause-and-effect studies... where systems thinking approaches shall be the chosen tool. Thanks.

***Keith Harman***: Really enjoying the posts! Thanks to all of you!

## HOW ARE GLOBAL BANKS RESPONDING TO THE COVID-19 PANDEMIC?

***by Paolo Agnese and Paolo Capuano***

***Alex Kostyuk***: Dear Paolo and Paolo, an issue of the bank boards is very interesting because the board of directors in banks is a very specific phenomenon. Banks are very sensitive to various risks around and the board of directors should respond accordingly. This concerns the risks produced by COVID too. It seems to me that recently the issues of the firm governance by the board and regulation by the state are challenged from the point of view of being balanced. What do you think if the bank boards perform well enough to care about the bank financial performance and risks in the time of COVID or probably, regulation should be the most important instrument in this context?

***Mireille Chidiac El Hajj***: Dear authors, the paper is very interesting as it tries to shed light on the evaluation of the non-financial measures and the main intervention adopted by the boards in banks, which can be classified into four macro-categories: teams for COVID-19 prevention and control; supporting communities; protecting and supporting employees; protecting and supporting clients. Yet, the paper needs to be well structured and separated into sections that define the methodology, the findings and the discussion. A closer look and fragmentation of each macro category would be appreciated.

***Paolo Agnese***: Dear Mireille Chidiac El Hajj, thank you very much for your helpful comment, we really appreciate it. Indeed, this work could be deepened by future research, also in order to develop the four macro categories identified.

***Ignacio López***: Congratulations on this interesting paper, Paolo and Paolo. I was wondering if the bank system is taking advantage of this pandemic era to guide clients to an online field. I mean, as physical structure and investments are more expensive than online operations. Banks prefer that their clients make all their operations online, limiting the number of open branches, or the business hours. What is your opinion on this aspect? Additionally, as you know, our society is more and more old, and these people are not used to manage online tools (computers or mobile devices to enter banks' webs and make the banks operations). Do you consider that actually there is a certain abandon of this type of clients?

***Paolo Agnese***: Dear Ignacio López, thank you very much for your interesting question. Indeed, we have found that, during the COVID-19 pandemic, global banks recognized that access to digital technology has become an essential priority and worked to accelerate investments in digital and automation. A key aspect of global banks' response has been the strengthening of digital channels, such as mobile banking, online banking, and automatic teller machines.

***Ignacio López***: Thanks for your response, Paolo. In addition to your message, do you consider that with this kind of investments, banks are expelling the layers of the society that do not have access to online tools or even Internet? And what about those old people that can use these devices due to a lack of technical or digital knowledge? Thanks a lot.

***Paolo Capuano***: I thank Olha Lytvynenko for the opportunity she gave us to share our research ideas and to initiate a constructive debate on the research topics of corporate governance. Thanks to Alex Kostyuk, Mireille Chidiac El Hajj and Ignacio López for the interesting questions.

As for Alex's interesting question, I agree with the idea that regulation should be the most appropriate tool to try to define good governance of banks, especially in this period of the COVID-19 pandemic. Sound and good governance can contribute to the effective containment of the effects of the pandemic crisis on the banking system.

As for Mireille's interesting observation, whom I thank, I can highlight how in fact we are already thinking of developing research in the four macro-categories identified and this development will also be supported by more recent data and a larger sample.

Thanks also to Ignacio for the last interesting observation that highlights a problem related to the development of the internet and online tools. Certainly, it is an aspect that deserves careful consideration and a specific study that we will take into account for the future research we are planning.

***Ignacio López***: Dear Paolo, I am very interested in researching this topic. If you consider that I can contribute something, let me know.

***Gladys Gamariel***: This is a very interesting paper. Well done to Paolo!

***Paolo Capuano***: Dear Ignacio, I am very pleased with your interest and I think it could be an excellent idea to collaborate for the publication of an upcoming paper on this topic. If you agree, we could exchange contacts to evaluate together a research idea on this topic immediately after the conference.

***Evita Allodi***: Thank you Paolo and Paolo for sharing your research. The topic is very interesting and well suited for further investigation. I am sure that future research will be possible such as, for example:

- on the ratio of the resources made available by each bank for the 4 modes of intervention you identified in relation to the total assets reported on the bank's balance sheet;
- the timing of the implementation of these measures, i.e., how prepared the banks were to deal with a situation of this type.

I hypothesize that there may also be elements of study by observing the current year: there will probably be trends in relation to the various lockdowns. I hope to read your future research on this topic.

***Alex Kostyuk***: I agree with you, Paolo. Global pandemic is a reason to ignite the new ideas and give a new push to the corporate governance research and practices.

***Paolo Capuano***: Thank you very much Evita Allodi for your interest in the topic covered by our short paper and for the interest and specific observations and possible insights that we will take into consideration in the development of the research. Indeed, these insights can add value to research especially considering the latest effects of the pandemic on bank governance.

***Mireille Chidiac El Hajj***: Yes I agree with Alex. The global pandemic pushed everyone to think outside the box and rethink the new appropriate mechanisms of sound governance.

***Karen M. Hogan***: Thank you for an interesting paper. My husband works in banking and I have seen firsthand some of the changes at the wholesale side of the bank. The topic is interesting. As long as we can keep the hackers and the cyber thieves at bay we can progress.

***Paolo Capuano***: Dear Karen, thank you for your interest in the topic covered in the paper and thanks for the comment on your husband's experience. The COVID-19 pandemic is bringing about many changes in the organization and governance of banks. The challenge will be to adapt banking governance to these changes.

***Safaa Alsmadi***: Very interesting research, in fact, it lays the groundwork for a great deal of future research. For example, the effectiveness of the measures adopted by the banks to adapt to the new era and the determinants of such measures (e.g., governance).

***Paolo Capuano***: Thank you very much Safaa for your comment. In fact, the objective of this research is precisely to identify the sources that have produced the measures put in place by the banks to face the current pandemic crisis. It is a difficult challenge but it could be useful for defining best practices and optimal guidelines for banks to move in a context of economic crisis.

***Safaa Alsmadi***: Indeed. However, it would be interesting to examine the characteristics of the boards responding to COVID-19 pandemic in a faster and more effective manner.

***Paolo Capuano***: I agree and thank you for the suggestion. We will also analyze this important aspect for the development of the paper.

# BOARD OF DIRECTORS TURNOVER AND FIRM PERFORMANCE

***by Brian Bolton and Jung Park***

***Alex Kostyuk***: Dear Brian and Jung, it is a pleasure for me to welcome you again at our online conference. You contributed with an excellent paper. The issue of directors turnover and firm performance was always a fundamental issue of corporate governance. This time, when COVID attacked corporate governance as a system, this issue became even more important. You stated that boards of directors can re-invent themselves in a variety of ways — new committees, more meetings, different compensation — but the most direct way that the structure and culture of a board changes is through turnover and replacement of board members. This is a large-scale outlook on this issue that can incorporate many residual issues. For example, what do you think if the motives and intensity of such sort of "the board re-invention" could differ in more or less diverse boards? I mean gender diversity, nationality of directors. What is the role of the Chairman-CEO duality in this context? On the whole, this is a very interesting issue from the point of view of the new room for research.

***Dmitriy Govorun***: Dear Brian and Jung, thanks for sharing your results. In general, I agree with Alex regarding the further research area. I also refer to the questions you've mentioned in your study. I suppose that we may also add more to the list for further clarifications: are these results influenced by the economic cycle/average industry growth rates? Are these results influenced by the ownership concentration?

***Karen M. Hogan***: Dear Brian and Jung, thank you for this very interesting idea. I echo Alex's comments regarding board diversity especially gender diversity and the quotas that are present in some countries. I would also suggest looking at the literature on some of the physical attributes of the CEO, etc. that have been in the literature. Perhaps the risk preferences and physical attributes might have some insight especially in the 2006 to 2010 era of instability. For example, my coauthor and I have this paper:
Mills, J., & Hogan, K. M. (2020). CEO facial masculinity and firm financial outcomes. *Corporate Board: Role, Duties and Composition, 16*(1), 39–46. https://doi.org/10.22495/cbv16i1art4

***Safaa Alsmadi***: Interesting analysis on the effects of the board turnover on the firm performance, it would be interesting to see the theoretical explanation of such a relation.

***Tracy Xu***: Dear Brian and Jung, thank you for sharing your research, great work! Board turnover is certainly an interesting and important area. One extension is to explore what type of turnover and how much turnover might be good. For example, does the turnover change the board composition, i.e., independence, diversity? What is the frequency of turnover within a rolling window, i.e., three years? And what are the impacts of different types of turnover on firm performance?

***Chan Du***: Dear Brian and Jung, your research provides very interesting results on the impacts of board chair turnover, non-chair board of director turnover, and the interactions between board chair turnover and non-chair director turnover on firm performance. I wonder if it is possible to look at the executive member director turnover vs. the non-executive director turnover. Will they have different impacts on firm performance? In addition, some other control variables such as past performance may be included in the regressions to check the robustness of the results. Also, as ownership concentration may affect firm performance, another control variable may be percentage of concentration of ownership. Thank you for sharing the interesting research.

***Pedro B. Água***: Interesting facts (statistics), and even more interesting questions. Wonder what techniques/methods will be used to find the "whys" behind the facts, and to answer the questions. Good read!

***Zhang Changzheng***: Interesting work and valuable findings. It is worth discussing whether the impacts of directors' passive turnover and active resignation on performance are inconsistent. In addition, will gender diversity change after directors' turnover affect performance?

***Imthiyas Yakuban***: Dear Brian and Jung, overall the paper is good. Choice of research variables and dependent variables is commendable.

# A GENDER STUDY ANALYSIS OF BOARD MEMBERS, C-SUITE, AND INSIDERS IN THE INSURANCE INDUSTRY

***by Karen M. Hogan and Deborah Vesneski***

***Alex Kostyuk***: Dear Karen, you are welcome to take part in our online conference forum again. Your recent study is both theoretically and practically driven again. This is a case to get inside with an accelerated interest. You fixed that there is a steady improvement in the percentage of women allocated to board positions over the past eight years in all segments of the insurance industry. It seems to me that this could happen because of a very close link between the various risks at the market and the insurance companies themselves. The role of risk governance and control is extremely important for insurance companies therefore the role of women on the aboard could be very important at least from the point of view of taming risk through a moderate, not aggressive vision of the strategy within this industry in a whole. What is your point of view about these issues? Is the US insurance market specific to any extent?

***Mireille Chidiac El Hajj***: Good morning everyone. I read the paper. It is very interesting and its structure is good. However, when it comes to the findings, it shows some weaknesses. It presents some few numbers, while the reader expects more. He/she expects to understand the reasons behind them. Differences are observed between the departments. What are their main causes? How are they justified? In this line, the authors are invited to discuss the findings and link them to literature.

***Karen M. Hogan***: Hi Alex, Thank you for your note. Yes, females are an integral part of insurance company in many lines of business. They are especially important as part of the consumer-facing lines. The overall industry has 60% females and as boards increase their presence I do believe that risk will be tamed with adjustments into the strategic, operational, and financial risks that present the most potential as killer risks. The hard part of the equation is not really so much including women on the board, but finding and grooming women for all positions of the board. This is a problem that is not related just to this industry, but since females are the majority gender in the industry they should in theory represent a larger share of the top positions. In our full paper, we show that the lion share of gains in the board positions come from females in HR, audit, communications, and other non-quantitative related positions. Over 80% of insurance boards had females as the head of HR while only 13.5% came from risk/CRO. Since actuaries are more likely to become CEOs in insurance companies than HR professionals, it is important to if we are really serious about having strong women lead these companies that we set them up as empowered individuals from the start. That means getting them more interested in fields early on that require STEM programs in education and also help them build deep mentor networks when they move into a full-time position. They need to understand that there are positions that involve both brains as well as congeniality and they need to be supported by all genders in this goal. This I think is a deeper issue and not one that is going to be solved quickly, but I do believe that as more research comes out on these topics and with programs that can help mentor females the natural determination to bring value to the firm will eventually show that like any good capital budgeting decision females in high level positions do add value to the firm.

Mireille, thank you for the comments. Yes, I struggled with including the entire paper or just the extended abstract. I do have the entire paper complete which does include more tables, etc., so the reader can really see what is going on. I have included a pdf of the paper here. You are welcome to read through and I would appreciate any of your additional comments.

***Mireille Chidiac El Hajj***: Dear Karen, Thank you for your reply and for uploading the whole paper. The paper is well structured and highly interesting. Allow me nevertheless to add 2 small comments: 1) Please shed more light on why there is no significant advancement for the percentage of women in the C-suite positions, determine the main causes before going to recommendations. It will give an added value to the text. 2) In the conclusion section, the paper should open doors for further researches. An open question would be therefore appreciated.

***Karen M. Hogan***: Hi Mireille, thank you for your additional comments. I will definitely take them into consideration as they will add value to the paper. I do think the C-suite issues with females are interesting as audit positions have increased which does usually mean that the individual in that position does have formal training at least on the accounting side of the business. I plan on looking at this within the entire finance, insurance, and real estate industry to see if there are any differences in the top two. My guess with insurance companies is that because so many of the top positions for CEO anyway can come from actuarial I would have to investigate the percentage of females that belong to that part of the industry. My guess is that, like finance at least at my institution, only about 25% of the students in the finance major are females. This limits the pool going in and thus limits those that would be potential candidates. So I believe that the issue needs to be supported much earlier in life and a push for females in STEM programs could help equalize the issue.

***Mireille Chidiac El Hajj***: Excellent. Go deeper with this issue! You'll certainly come up with a good interpretation.

***Alex Kostyuk***: Thank you, Karen, for a very detailed insight concerning the specifics of insurance industry and board of directors' practice. I see that it plays a role.

***Zhang Changzheng***: Thanks for sharing a valuable statistical description of female participation in the top leadership positions at insurance companies. On one side, results show a clear trend of improvement in gender representation on board of directors; on the other side, unfortunately, no significant advancement for the percentage of women in the C-suite positions is evident at present.

More mentors for females are absolutely necessary; however, it is more important to adjust the prevailing masculine-favoring competency model of senior positions, which has actually always ignored the value of feminization. Avoiding the selection of more unqualified new male executives or eliminating unqualified existing male executives is far more effective in improving women's participation in top positions than reducing the standards for the selection of female top leaders.

***Imthiyas Yakuban***: Dear Karen, overall manuscript talks on gender equality but did not talk much about diversity of including LGBT, transgenders, etc. Tools used show discriminating analysis on various demographics elements.

***Karen M. Hogan***: Thank you, Zhang, I do agree standards should never be lowered.

Imthiyas, Thank you for your comments. Yes, I would like to increase the diversity metrics if possible. We tied to do some additional metrics, but it was difficult to get the data without doing a survey of the population.

# AUDITOR CHOICE AND CORPORATE GOVERNANCE MECHANISMS: A STUDY OF LISTED COMPANIES ON THE ATHENS STOCK EXCHANGE

*by Stergios Tasios, Evangelos Chytis, Marios Fasoulas, and Ekaterini Lekarakou*

***Alex Kostyuk***: Dear Stergios and colleagues, welcome back to our conference forum again. Your mainstreaming conclusion is encouraging: "The above results indicate that firms with larger boards, with more independent members and women in their boards' composition, as well as firms with higher institutional ownership are more likely to appoint a Big4 audit firm. On the other hand, family-owned firms are less likely to engage a Big4 audit firm". Could you fix the most important issues explaining the specific results linked to the family-owned firms?

***Husam Abdel Ra'uof Mahmoud Ananzeh***: This paper is interesting but it's better to present the descriptive statistics results so your data can be further understood. Also, it is considered a good idea to extend the period of your study to include some more observations.

***Dmitriy Govorun***: Dear colleagues, thank you very much for sharing your ideas with us. It was really interesting to read about the motives of the auditors' choice. You used a logit regression model to evaluate the links and dependencies. One of the variables is auditors' choice — a dummy variable reflecting whether the statements were audited by a company from Big4. My question lies in this regard: Have you tried to study or include into your model a group of auditors around Big4 (less famous, less costly but also reliable)?

***Stergios Tasios***: Dear Alex, congratulations on the conference. We are glad to participate and share our work. Family firms are characterized by the unification of ownership and control which may result in internal control weaknesses and increased audit risk. Prior research on the factors that affect auditor choice in family firms has produced mixed results. Some studies support the argument that family firms may appoint high-quality auditors to signal that they are willing to implement a strong corporate governance structure that protects stakeholders' interests. Other studies provide evidence that family firms avoid appointing high-quality auditors especially in the cases where family ownership is high.

Dear Husam thank you for your comments. I agree that descriptive statistics provide useful information and supplement the understanding of the study. We did not include them in the extended abstract to keep it within the required limits for the conference. We will include them however in the full paper.

Dear Dmitriy, thank you for your insightful comments. In this study, we only examined whether the audit firm was a Big4 or not without classifying the audit firms to large, medium, small or very small. This classification could provide useful conclusions and enhance the robustness of the results.

***Loai Ali Alsaid***: Thank you, Stergios and the paper team, for this very interesting topic. Examining the impact of corporate governance mechanisms on auditor choice is a good and valuable contribution to the existing theoretical debate especially regarding the impact of board characteristics, gender diversity, and ownership structure. This frankly leads me to question the meditating role of "national culture" in this potential association between corporate governance and auditor choice. Especially since some stock exchanges (as in Egypt) recently launched a new framework for good governance and social accountability. This dynamic framework has served as a 'translator' ('reflection') of national cultural dimensions at the state level, which subsequently established a novel form of regulatory compliance for financial and non-financial disclosures. In an effort to make your study more interesting and rich, I wonder if you could analyse and explain more about the influence of national culture at the state level on the relationships ("dynamics") between corporate governance and auditor choice. Thank you again for this interesting topic and best wishes!

***Stergios Tasios***: Dear Loai, thank you for your kind comments. Definitely, culture plays a significant role in auditor choice. It would be interesting to add the dimension of national culture and also study firms from different countries to trace the impact of different cultures on auditor choice.

***Safaa Alsmadi***: Dear colleagues, thank you for sharing your work. I have one comment if you may since the study aims to examine the effect of governance on the auditor choice, isn't the financial experience of the board and audit committee an important factor to consider?

***Stergios Tasios***: Dear Safaa, thank you for your comment. The study of the demographic characteristics of the boards and the audit committees, including financial expertise, could definitely provide valuable conclusions and enrich the understanding of the motivations of auditor choice.

# THE WEIGHT AND ROLE PLAYED BY LISTED COMPANIES: A DISCREPANCY BETWEEN STATISTICAL AND STRUCTURAL INDICATORS

***by Lucio Biggiero and Robert Magnuszewski***

***Alex Kostyuk***: Dear Lucio and Robert, welcome at our conference forum. Research on the ownership network of the EU28 aerospace industry is quite new research stream. What is the typical ownership structure of the aerospace industry companies? Is it concentrated or not? What is the share of foreign owners? Are these companies owned in the most by the institutional owners? It seems that all these issues make the landscape of the aerospace industry companies very clear and much promising for the further researching.

***Dmitriy Govorun***: Dear Lucio Biggiero, Robert Magnuszewski, thank you very much for your paper and research efforts to advise researchers to use not only listed companies when it comes to modelling/investigating the whole industry. I hope you will develop NEBBA and present it to the public and it becomes a tool for researchers to calculate necessary indexes for others.

As far as I understood your approach is handling the 3-level of relations between companies (ref to Figure 2 "Visual representation of types of relations") plus type "D" companies. Have you had attempts to go deeper into connections or the EASIN is characterised only by such a level of relationships between companies? In this regard is the proposed methodology scalable to those markets/environments with more multi-level ownership relations between companies?

***Karen M. Hogan***: Dear Lucio and Robert, thank you for this seminal paper in this industry. There is so much future in the aerospace industry and I'm sure that it will have its own idiosyncrasies in profitability, etc., due to the ties it will most likely have in the government. I know in the US many of the advances we have had in aerospace have come from connections with NASA and the government. As the private companies start to take off and go public it will be interesting to see how they compare to some of the other transportation industries, etc.

***Pedro B. Água***: Dear Lucio and Robert. This is a very very interesting paper. ASD industries are probably the "queen" of all industries, as they drive progress and human development as no other industry. The countries that care about this industry (unfortunately not my own country) are at the forefront of the technological progress (then economic progress... then social progress). Moreover, for Europe, it gets even more important for geopolitical reasons. The study you are doing is a very good start, as it shows some findings. However and industry (or any human organization) is a socio-technical system, and to understand systems one needs to understand the structure of the underlying system, as behaviours originate from such structure when subject to stimuli. Also, the role of non-listed companies is equally important, however difficult it is to gather the related data. I wonder if you intend to apply some systems thinking methodology in taking this very important subject further.

# FINANCIAL LIBERALISATION POLICIES IN SUB-SAHARAN AFRICA

***by Gladys Gamariel***

***Dmitriy Govorun***: Dear Gladys Gamariel, it was interesting to get introduced to the liberalization index concept and your conclusions about further reforms. You have pointed out that SSA countries should further modernize prudential regulation and supervision of banks. I have several questions in this regard. Which elements of prudential regulation seemed to me most valuable and first executed? Should changes focus only on economic ratios and compliance? What is the role of corporate governance in banks here? What are your thoughts on this?

***Ignacio López***: Dear Gladys Gamariel, I really appreciate your effort to generate this interesting index. It must have been a very intense work. I totally agree with your statement regarding international capital controls. In our completely globalized world, following Basilea's recommendations is crucial for every financial institution to grow and expand globally. But this is a decision that has to be taken from authorities, what is more difficult. Don't you consider that recommending a higher prudential regulation and supervision of banks is the opposite of liberalisation? I will read your reply with attention. Thank you.

***Gladys Gamariel***: Hello Dmitriy. Thank you very much for the feedback. Indeed the study concluded that prudential regulation and supervision of banks in the region is lagging behind. The study considered 4 aspects under prudential regulation:
1. Has a country adopted a capital adequacy ratio based on the Basel Standard? The coding would give more weight if more banks within a country meet the prudential requirement of *% (Basel)1, from 1993.
2. Is the banking supervisory agency independent from influence of the executive? (more weight given to where there exists a legal framework for the independence of supervisory agency).
3. Does the supervisory agency conduct on-site and off-site examinations — does a legal framework exist for such?
4. Does a country's bank supervisory agency cover all institutions without exception? The data collected indicate that central bank independence has been an issue in most countries, there is however evidence that onsite and offsite supervision has been happening to a great extend. CAR seems to be contributing the least of the 4. The second question covers to a greater extend the issue of corporate governance. I believe it would be interesting to zoom in on that particular aspect and see its role explicitly, outside the aggregate index of supervision. I believe the changes should be wholesome and not necessarily be inclined to only some aspects of prudential regulation and supervision. There is empirical evidence that links poor prudential

regulation and supervision to bank fragility. I, therefore, believe that all aspects of the index must be seriously be taken up by SSA countries.

Dear Ignacio. I am grateful for your feedback and question, much appreciated. You are right, it may sound like recommending tightening prudential regulation is going against liberalisation. Indeed some scholars have called it re-regulation! However, just to allay your fears, in this study, the score for prudential regulation is 3 when there is effective supervision and 0 when it's lacking (compare this with privatization of banks, for instance — 3 when there is privatization (less to no state banks) and 0 when there are lots of public banks). This, therefore, shows that the 2 weights are going in opposite direction. Indeed liberalisation is admirable, but there is a definite need to supervise banks to ensure stability. Lastly, just to emphasize "prudential regulation is availing a legal framework focused on the financial safety and stability of institutions and the broader financial system", all about oversight, and not state intervention in the activities of banks such as impossible interest rate ceilings or credit controls. So in a way, it works for the better of the financial sector just as much as removal of other controls does. Thank you once again, Ignacio.

***Ignacio López***: Thank you Gladys for your response. So, the key is to achieve an excelent supervision with a less restrictive regulation framework. I always thought that one important cause of the great recession was, not the lack of regulation (it existed) but the lack of good supervision and checking that all the laws were been applied. Thanks for your interesting thoughts.

***Dmitriy Govorun***: Hi Gladys, thanks for sharing the ideas in your reply. Of course, all aspects of the index should be taken into account. I also thank you for the comment regarding the governance of the central supervisory body. It seems that the ground for further policies implementations and developments lies in the area of independence issues.

***Assia Liberatore***: Dear Gladys, thank you for sharing your research. The topic is very interesting! You show an aggregate financial liberation index basing upon time series analysis for 30 years. Why have you selected this period? Do you think that the index could be more accurate based on the time? Thank you.

***Gladys Gamariel***: Dear Assia, Thank you very much for your feedback. The period was basically determined by data availability across most of the countries in the sample.

Hello Dmitriy. Yes, you are right on point! Thank you.

# CLIMATE CHANGE AS A NEW PERSPECTIVE OF CORPORATE GOVERNANCE DISCLOSURE: THE CASE OF ITALY

***by Paola Vola and Lorenzo Gelmini***

***Alex Kostyuk***: Dear Paola and Lorenzo, welcome at our conference forum. You considered 22 companies in your study. What are the most important corporate governance specifics of these companies? Probably, ownership structure, ownership concentration, diversity on the board of directors, etc.? What should be linked to TCFD policies from the point of view of corporate governance to explain the wish of these companies to follow TCFD policies?

***Lorenzo Gelmini***: Thank you, Alex, your point is clearly interesting and we wish to move further in the paper in order to explore the relationships amongst features of the board and disclosure of TCFD. A key issue will also be to assess the specific committee inside the board and devoted to sustainability.

***Alex Kostyuk***: Thank you, Lorenzo. An idea to establish a separate committee on the board linked to sustainability is quite important. It seems that such sort of committee could care about even more certain issue like ESG that is extremely demanded by the companies now.

***Lorenzo Gelmini***: Thank you, Alex, at the very same time the disclosure regarding the relationships amongst the board, the committee and the management level line is currently poor and potentially evocative of impression management techniques.

***Alex Kostyuk***: Yes, Lorenzo, I absolutely agree with you. Probably, it could be just in time to implement to restore the public trust in market and companies stressed by the global pandemic.

***Lorenzo Gelmini***: Thank you, Alex, for your fruitful insights.

***Ignacio López***: Congratulations to Paola and Lorenzo for this paper. It is very interesting and with a lot of work to do in the future. I mean that the creation of a separate committee on the board linked to sustainability could be a new line of researching. As well as the relationships amongst the board, the committee and the management level. Anyway, it is too soon to see the effects of a true interest from companies to this kind of risks, that little by little are gaining prominence. I would like to ask you about your opinion on the financial sector. In my opinion, this industry is even more interested and active in adopting these measures. Do you agree? If you, do you consider this is only a fashion decision (everyone does this) or is it a trend that will remain? Thank you.

***Adam Samborski***: Dear Paola and Lorenzo, you have prepared a very interesting presentation. Today, climate change policies are coming to the forefront of public debate. This translates into public attitudes towards climate protection issues. All of this is crucial to how businesses operate. Hence, the research you have conducted is extremely important and timely. In my opinion, however, it would be worthwhile to ground your considerations more in the theories of economic regulation (I recommend publications by, for example, Richard A. Posner or Alfred Edward Kahn). Please note that many changes in companies are the consequence of legal changes. In my opinion, taking into account the basic theses of the theories of economic regulation would greatly enrich your research.

***Mireille Chidiac El Hajj***: Due consideration is given to climate change, but measures to improve the disclosure obligations on corporate boards who should pay attention to business responsibilities and sustainability. A sustainability committee inside the board, as mentioned by our colleagues, should be accountable for the sustainability strategy and performance of the business.

***Karen M. Hogan***: Hello Paola and Lorenzo, thank you for such an interesting topic. I would assume as the idea of climate change really develops traction as an indisputable fact that the boards will start taking it more seriously as well. I hope for everyone's sake it comes sooner than later. Given your limited sample did you find any themes in industry patterns or were there any themes in climate perspective as a function of gender presence on the board?

***Junada Sulillari***: Hello Paola and Lorenzo. Thank you for sharing your research work. I find it really interesting since the climate change is one of the most important issues in the world nowadays. I appreciate the efforts that you have done to discover the involvement of the climate change on the corporate governance practices. I would suggest you extend your analysis also on other projects because it is a really important topic. I also appreciate the fact that you are conscious about the limitations of your research work, which helps you be more realistic in your discussion. Thanks again for sharing your great work.

***Keith Harman***: Thanks to the authors. Climate change is a business risk that transcends all other risks, especially given that many of the world's most important financial hubs and markets for capital are located in cities bordering the world's oceans. This does not even take into account how climate change will impact the operation of the global supply chain.

# THE QUALITY OF SOES' ANNUAL FINANCIAL STATEMENTS. A CRITICAL ANALYSIS OF THE OECD GUIDELINES

***by Margherita Smarra and Marco Sorrentino***

***Dmitriy Govorun***: Dear Margherita Smarra, Marco Sorrentino, thank you very much for participating in the conference and your research on OECD Guidelines for SOEs financial statements. I enjoyed the brief overview of Italian government compliance with the OECD recommendations on disclosure and transparency in your paper. I'd like to refer to a very interesting statement of yours that there is too much non-compliance in the performance measurement area. This may lead to greater losses of public resources. Perhaps such losses may be reduced by effective boards. At the same time, there is non-compliance in the board member selection process. What should be done in respect to the board members' selection from your point of view to be compliant and follow recommended practices?

***Margherita Smarra***: Dear Dmitriy Govorun, thank you for your post! We believe that it is necessary to introduce an obligation to communicate board members' selection. Establishment of an obligation to communicate selection procedures would be in full agreement with both specific OECD guidelines and the existing legal requisite that qualifies a high-level management nomination as an act that implies a sophisticated level of discretion and as such must be supplemented by detailed motivations (TAR Lombardia, sect. I, sentence No. 1483/2012).

***Dmitriy Govorun***: Hi Margherita. Thank you very much for your reply and comment. It is a good suggestion to implement obligatory selection process disclosure without additional costs. I believe the next step should also be an update of the selection process itself according to the best practices. This may lead to the changes in performance control and partially reduce the situation of legally compliant but non-achieving goals entities as you mentioned in conclusion section of your paper. Thanks in advance for your paper and shared ideas.

# THE EFFECT OF MANAGEMENT PRACTICE ON PERFORMANCE: THE MODERATING ROLE OF OWNERSHIP

***by Robert Rieg and Patrick Ulrich***

***Dmitriy Govorun***: Dear Dr. Rieg, Dr. Patrick Ulrich, thank you very much for your ideas regarding the impact of ownership on firm performance through different levels of management practice. You have mentioned in your research that "owner-managed firms and family businesses with an external CEO show only slight differences in profitability, while state-owned enterprises perform at the lowest profitability level". So we conclude that the state probably implements not very effective management practices. If so, what is your view on how to change management practice to achieve better performance of SOEs?

***Patrick Ulrich***: Thanks for the great post. We didn't look at that in our study, but we can imagine that the issue of management performance in state-owned companies also depends on the prospects and the incentive systems of the companies. We assume, at least for Germany, that in many areas the pay and also the perspectives in the public sector cannot keep up with the private sector. It might therefore make sense to adapt the incentive structures in the public sector in order to find better qualified managers who will then also use newer methods of corporate management, ceteris paribus. This would be an exciting follow-up project.

***Shatha Mahfouz***: Enjoying the paper by Dr. Robert Rieg, and Dr. Patrick Ulrich on performance by implementing different levels of management practice and using the moderating role of ownership.

***Adam Samborski***: Dear Robert and Patrick I have carefully read the extended abstract that you have attached. In your article, you address a very important issue, i.e., the effect of management practices on performance. You have set this problem in the context of ownership structure. The structure of ownership and control varies significantly across countries. In my opinion, the ownership and control structure is critical to the management of a company. Financial results are managed differently in companies where institutional investors (e.g., investment funds) have significant shareholding, and differently in companies where industry investors have significant shareholding. The ownership structure also influences the possibilities of development of a given enterprise (e.g., through technology transfer from an industry investor). The structure of ownership and control of companies in a given country is undoubtedly influenced by legal solutions. In this context, I would like to ask a question: should the European Union strive to develop legal solutions that would make the structure of ownership and control of enterprises in particular countries similar? Or should the issue of the structure of ownership and control of enterprises be retained in its present state?

***Karen M. Hogan***: I find it interesting that the PE firms who are known for buying and finding value in the firms can not take advantage of good management as one would assume that should lead to even larger profits and returns.

***Patrick Ulrich***: Dear Adam, thank you for this detailed message. It certainly goes beyond just business administration. At least legislators have managed to break up blockholder structures via tax issues in the US. Here, however, one could debate whether this would be a matter for the EU or the member states. Overall, however, a very interesting approach.

***Imthiyas Yakuban***: Dear Robert and Patrick, choice of regression models to test the data analysis collected as part of secondary data collection are commendable.

***Patrick Ulrich***: Thanks a lot for your feedback.

# FINANCIAL ACCOUNTING MANIPULATIONS AND BANKRUPTCY LIKELIHOOD: A STUDY OF NORDIC BANKS

***by Shab Hundal and Anne Eskola***

***Dmitriy Govorun***: Dear Shab Hundal and Anne Eskola, thanks for sharing the information regarding Nordic Banks and banking system. I support your idea that manipulations and bankruptcy likelihood is the topic to debate on. It is a very important topic as we remember previous high-profile cases on the matter. It is always about losses for many stakeholders. Banks playing an important role in economics are under the steadfast attention of many institutions. You have pointed out that "the financial data manipulation practices artificially enhance the financial performance of banks, however, in a broad perspective; such manipulations can trigger potential financial distress". Nordic banks are quite regulated regarding compliance. How did they manage to manipulate having an internal audit, committee system, etc.?

***Ignacio López***: Dear Shab Hundal, Anne Eskola, thanks for sharing this interesting study. Reading your work, you state that, due to some scandals of money laundering, stock market reaction has been extremely adverse. I was considering research about the role of the stock market as a disciplinary tool. What do you think about this idea? Have you discovered anything related with this topic in your research? Thank you.

Additionally, you conclude that Scandinavian banks are still in good financial health, in general, but their operating performance has worsened over time. Do you consider this effect is a consequence of your topic? I mean, financial accounting manipulations provoke this worse operating performance?

***Shab Hundal***: Dear Dmitriy and Ignacio, thank you so much for the much-valued feedback.

Dear Dmitriy, you are absolutely right in your observation that Nordic banks are highly regulated concerning compliance, however, they can do certain "irregularities" through their overseas branches. It has been observed that some corporate clients of certain overseas branches of Nordic banks did not disclose even their full details including the nature, and type of business, addresses and identification codes. Such examples of financial malpractices raise a question about how to form regulatory equivalencies or common denominators of regulatory compliance. Regulatory divergences between nations also reflect in the form of mandate of audit committees, effectiveness of external audit process, and other constituents of corporate governance.

***Leonella Gori***: Is there any contact point with efficient theory in markets? I mean maybe prospect theory in particular.

***Shab Hundal***: Dear Ignacio López, the role of the stock market as a disciplinary tool is a very good idea. Mark Roe, the author of the famous book 'Strong Managers, Weak Owners' (1994) remarks that a stock market reaction is relatively effective to tackle a 'shirking manager' and regulations are more effective to punish a 'stealing manager'. We are considering studying and comparing the relative role of strict regulations and negative stock market reaction as deterrents to managerial discretion in the near future. However, our preliminary findings coincide with your point since some Nordic banks have lost heavily in the stock market after their names figured in the money laundering scandals.
To support your second point, our preliminary findings are further indicating a causal relationship between financial manipulations and worsening operating performance. However, we are looking forward to seeing our findings after we employ a more rigorous analysis. Thank you so much for raising highly important points.

***Mohamad Hassan Shahrour***: It is really an interesting topic, which made me think directly about the Enron scandal back in 2001! However, I really don't see the intuition behind using the Atman Z-score and not a different measure (e.g., the Merton (1974) model). Indeed, re-examining your hypotheses using different measures could ensure the robustness of your results.

***Shab Hundal***: Dear Leonella Gori, thanks for the suggestion. Prospect theory can be considered in the literature review. Managerial risk aversion is an important aspect in the highly regulated sector such as banking.

Dear Mohamad Hassan Shahrour, thanks a lot for your suggestion. Yes, I agree that robustness of the findings can be tested with multiple models.

***Loai Ali Alsaid***: Thank you, Shab and Anne, for this very interesting topic. Exploring financial manipulations, especially in the banking sector, is a 'hot' topic in the current accounting literature. Fraudulent accounting practices, with a particular focus on earnings manipulation, have already led to financial distress at large banks that have declared virtual bankruptcy. However, I wonder if the authors can explain to us — the readers — how 'accounting' plays a strong (powerful) role in 'turning off' these financial manipulations and administrative distress. To my Egyptian knowledge, some large banks (such as the National Bank of Egypt) have started using advanced enterprise resource planning (ERP) systems to ensure transparency and monitor financial and non-financial performance. Taking a closer look, while some banks have used the balanced scorecard (BSC) as a sophisticated management accounting practice, others have actively applied the activity-based costing (ABC) tool to prevent fraudulent accounting practices and ensure effective financial disclosures. From my research background in this interesting area (see Alawattage and Alsaid, 2018), I urge the authors to shed more light on alternative accounting practices that banks or other institutions can use and infrastructure internally to protect themselves from instances of fraud and manipulation.

For your reference:

Alawattage, C., & Alsaid, L A. (2018). Accounting and structural reforms: A case study of Egyptian electricity. *Critical Perspectives on Accounting, 50*, 15–35. https://doi.org/10.1016/j.cpa.2017.09.001

Thank you again for this interesting topic and best wishes!

***Shab Hundal***: Dear Loai Alsaid, thank you so much for the appreciation, making in-depth comment and giving a valuable suggestion. You said it aptly that financial distress of large banks, triggered by earnings manipulation, is capable of causing potential bankruptcy. Of course, there are some positive changes occurring as well, as you have highlighted. We shall certainly go through the reference that you have shared with us. Once again, we are very thankful to you.

# THE ROLE OF MONEY IN HYPERINFLATION VENEZUELA

***by Richard Fast***

***Dmitriy Govorun***: Dear Richard Fast, thank you very much for sharing your paper and literature review on the topic of inflation and crypto-currency in Venezuela. It would be also good to see the comparative table, for example, where to describe various approaches (schools) in mentioned papers. I also believe that the paper is a part of the further research and it would be also good to put research question, hypothesis testing into the paper. I believe you have access to the data regarding crypto-currencies and basic macro indicators. It may be also good to do some calcs to test the hypothesis.

My second question is about the issues of trust to institutions in Venezuela. You have pointed out that "a key element in its success, however, will be whether the Venezuelan people will opt to use the government-backed Petro, or whether they will opt to use a different, decentralized alternative digital currency to avoid the perils of hyperinflation". What is the trend you may observe right now? Are people trusting Bitcoin rather than governmental decentralized currency?

***Leonella Gori***: The question of trust is crucial in finance. With crypto-currencies is maybe the only rule. Could be they more than a gamble? Thank you.

***Richard Fast***: Thank you so much, everyone, for the feedback. I don't have new information at this time. But your comments will definitely help me improve the paper. I appreciate all the questions and suggestions!

# QUALITY AND SAFETY OF ITALIAN SCHOOL BUILDINGS: TOWARDS A GOVERNANCE INDICATOR

***by Assia Liberatore***

***Dmitriy Govorun***: Dear Assia, thank you very much for participating in the conference. Congrats on the project beginning. Thanks for sharing the research ideas based on the scorecard model. You mentioned that the idea is to create an indicator which includes the quality of the school structures and the safety of the buildings. Am I right that school structure is about school governance? If yes, have you preliminary decided what at weights for mentioned indicators in the index? Thanks in advance.

***Assia Liberatore***: Dear Dmitriy, thanks for your attention. Yes, you are right: school structure is connected with the governance of the school because the principal has the duty to guarantee the security in the school buildings. Regarding the indicators, I would like to create a multi-level index composed of a series of indicators. Each indicator is related to a specific area of governance. As a consequence, I would like to establish a weight only after the index will be completed.

***Dmitriy Govorun***: Dear Assia, thank you very much for your reply and clarifications. I believe the multi-level index will include indicators which are the part of schools' disclosure policy and will not require additional costs as to data collection and processing. If so, is there a requirement that schools are obliged to disclose all the information regarding its activity?

As to the weights — it might be a good idea to establish them based on expert opinions from the sphere. This may give interesting result as well. You also have mentioned area of school finance management. Do you have a preliminary set of indicators on how to measure the level of finance management? Thanks in advance and welcome to present the results of your project during next conferences.

***Assia Liberatore***: Dear Dmitriy, thanks for your attention and suggestions. Yes, schools are obliged to declare a part of information, in particular regarding the financial management. However, it is difficult to collect financial data of schools but I would like to try. In addition, the school governance is a novel organization in Italy (it was intensified after 2015). I would like to run a survey of all Italian schools using e-mail. In this regard, I'll develop this project in the near future.

# CRYPTOCURRENCY: IS IT BECOMING A REALITY FOR ALBANIA?

***by Kostandin Nasto and Junada Sulillari***

***Dmitriy Govorun***: Dear Dr. Kostandin Nasto and Junada Sulillari, thanks for your paper. It is good to see more papers on crypto and governance related issues. And I like your positive attitude to crypto market in Albania: "What we can say about cryptocurrency market in Albania is that we are at the start of it, but the predictions about its development in Albania for the future are positive". I have several questions and comments as the topic is quite interesting. Does the cryptocurrency market or environment in Albania have the same range of issues as in other countries or there are specific features? If yes, where should be the focus of regulatory bodies in the sphere? I would also like to clarify when you write about cryptocurrencies, are you meaning concrete crypto (digital) assets or the technology itself? Basically, we have only a few technologies and many assets based on them. One of the objectives of the paper is "To analyze the potential benefits from the usage of crypto-currencies". I would suggest including this question into the separate research. It may be modelling the benefits from cryptocurrencies as a reduction of transaction costs and higher performance, etc. I mean you have stated the right and important issues to discover. However, it may be more relevant to focus on one or two of them and go deeper. Thanks in advance for your replies.

***Junada Sulillari***: Dear Dmitriy Govorun. Thank you very much for your feedback. Actually, Albania is in a situation in which people seem to be really attracted and "hungry" to invest in cryptocurrencies. Despite this, this market is still on the first steps, because there are still restrictions. Regarding the legal framework, the government has tried to be protective, this might have been a reason for the slow development of this market in Albania (and with the right maybe). It has served as an effort to avoid a second situation like the one caused by the pyramid schemes (a version of Ponzi Schemes).

***Junada Sulillari***: Since the pyramid schemes have caused a really great negative impact, this maybe have done the government to be more protective towards similar situations. I would also like to emphasise the fact that, the risk that cryptocurrency might bear a risk that might be great for a "fragile" country like Albania.
While when talking about the focus of the study, we are making a more general analysis, which in part includes analysing them in terms of the technology as well as in terms of specific assets. We treat the challenges of this market by taking both of them into consideration.
I totally agree with you that it would be interesting to make a more

detailed analysis about the potential benefits of cryptocurrencies. The actual situation has been a little complicated, with the government trying to "protect" its economy, but on the other side, it wants to give the opportunity to try reaping the benefits that it might bring. The cases of the frauds found, the illegal activities discovered, together with the risk that cryptocurrencies might be used for money laundry, has caused this hesitation of the government till now (this may be related to the legal framework development as well, which has had in focus more these factors). Despite the challenges that it might have faced and the need for a better legal framework, we tend to be in a situation of still analysing the potential benefits and risks that cryptocurrencies might bring. Anyway, we tend to have a positive attitude towards the impact that they might have on Albania. Thanks again for your feedback as well as for sharing your valuable perspective and opinion with us.

***Mohamad Hassan Shahrour***: It is really an interesting topic. Given the decentralization of cryptocurrencies, I would rather say this is an international interest and not just for Albania. However, you argue about using it as a "payment tool". For instance, voyage" enables you to pay using cryptocurrencies. Indeed such a platform is international and therefore includes Albania as well. I think restricting your study to Albania is somehow oppressive. On the other hand, I would ask why should it be considered as a payment tool? Given that no one is interested in getting paid by a currency subject to massive fluctuations. Indeed, it is a great research topic, and thanks for sharing your research; I was just wondering about these questions.

***Dmitriy Govorun***: Thanks Junada for your reply and detailed comments. I believe your further research topic is also in line and interest not only in Albania.

# COMBINED ASSURANCE — A POTENTIAL INTEGRATED GOVERNANCE OPTION FOR SMES?

***by Patrick Ulrich***

***Keith Harman***: I am very excited at the potential for "combined assurance" as articulated by Patrick Ulrich. The beginning of the development of a validated survey instrument is a valuable outcome and an additional benefit is the developing model grounded in theory and practice.

***Dmitriy Govorun***: Dear Patrick, thanks for sharing the ideas on the researched concept of combined assurance. The survey shows that even large companies have implemented concepts on a moderate level. For sure they understand the importance and relevance. But is the absence of implementation to your mind more about lack of knowledge or lack of external stimulus for implementation in governance? Thanks in advance.

***Patrick Ulrich***: Thank you for this feedback. I would see it both ways here: on the one hand, subject matter experts in this area are very rare and hard for companies to get. On the other hand, especially in Germany, it is the case that companies only implement governance aspects when they are forced to do so by changing regulatory requirements.

***Dmitriy Govorun***: Hi Patrick, thanks for your reply and comment. It seems that companies do not aware of the long-term benefits received. Or the focus is not on financial performance but rather on "comfort" structure for all stakeholders. Which is a more "social" approach. So, is it possible to "push" regulators for such actions? Is it on their agenda? Thanks.

***Patrick Ulrich***: Hi Dmitriy, it would rather seem that regulators will only adapt in times of economic crisis or national competitive disadvantages. Here, a concerted action plan within the EU would be helpful.

***Zhang Changzheng***: Dear Patrick, thanks for sharing the findings/ideas on combined assurance. The study shows that TL and CA have been little known and hardly implemented to date. There seems to be not only a subjective but also an objective shortage of experts in this field, which must be remedied. In this study, are there any appropriate interventions that can appropriately improve the participation rate (1.9 percent)? In addition, how to ensure that the 'correct people' fill out the questionnaire? Thanks in advance.

***Imthiyas Yakuban***: Dear Patrick, the choice of survey instrument as questionnaire is commendable and makes the manuscript much more empirical in its way.

***Patrick Ulrich***: Thanks Zhang for the great feedback. As mentioned in the study, the mail addresses were randomly generated from the Nexis database. We explained the study background in the invitation text so that the survey link could be forwarded internally to the "correct people". One way to increase the participation rate would be to send regular reminders to the sample.

# PUBLIC-PRIVATE PARTNERSHIPS: A PROFITABILITY ANALYSIS OF THE PARTNERSHIPS IN THE ENERGY SECTOR IN ALBANIA

***by Kostandin Nasto and Junada Sulillari***

***Dmitriy Govorun***: Dear Kostandin Nasto, Junada Sulillari, thank you very much for presenting your study. You have focused your work on the analysis of PPEs by making a quantitative analysis of the costs and benefits for Albania. May you please specify which costs you assume in this regard? I also appreciate it if you may share the ideas for benefits measurement.

***Junada Sulillari***: Dear Dmitry Govorun, thank you so much for your feedback. We are going to get focused more on analysing the benefits that Albanian economy and citizens have and will have from these PPPs. By taking into consideration the fact that PPPs in the energy sector comprise a great part of the overall PPPs, we want to reveal which are the direct and actual benefits of the economy from them. Their usage has brought some benefits in the improvement of the management of the problematic situation that this sector has experienced. The actual situation of the energy sector shows that we haven't yet reached that optimal or desired situation, because this sector is still facing problems. Through our research, we want to reveal if the benefits that the energy sector has had till now (and those that are predicted to benefit in the future) are enough to justify the costs. Regarding the costs, we are planning to make an analysis of the monetary as well as non-monetary costs that PPPs in this sector bring for the Albanian economy. One of the most debated costs of them has been the ones related to the great impact that they may bring/have brought in the nature. Another cost that we are going to take into consideration is related to the actual cost of these agreements because these huge amounts of money could be used on other sectors that maybe are more important for the country. We also plan to see the impact they have had in public finances, by making a quantitative analysis. PPPs have been often attacked by many parties and are considered as a threat to the public finances of the country (and their sustainability). In terms of costs, we also aim to make a prediction about the burden that they might bring for the future generations. About the benefits, we are also planning to make a prediction about the situation of this sector, due to the usage of PPPs. In general, we want to create a better idea of whether all these costs are worthy and if the future of the energy sector is promising due to the usage of PPPs. Thanks again for all your comments and feedback. We really appreciate it.

***Mireille Chidiac El Hajj***: Dear authors, the paper analyzes an important issue. Yet, allow me to introduce some comments. First, the paper is more like descriptive. It does not analyze the current PPPs ads and cons in the energy sector in Albania. A better comparative analysis of the cost and benefits is expected to finalize the manuscript. The paper needs to be restructured and proofread.

***Junada Sulillari***: Dear Mireille Chidiac El Hajj, thank you for your comments. Regarding the costs-benefits analysis, we are working on determining the best measures for the costs as well as the benefits that PPPs have brought and will bring in the future. In the previous comments, you can find some more information about this, in case that you want to create a better idea about the measures that we plan to use.

***Mireille Chidiac El Hajj***: Yes I read the comment but wanted to bring up the issue of the comparative analysis because it is vital for the paper. Without it, the manuscript would be simply descriptive. Proofreading is also suggested. Many thanks for your reply.

***Junada Sulillari***: Yes, it is. Thanks again for your feedback.

***Loai Ali Alsaid***: Thank you, Kostandin and Junada, for this very interesting topic. Examining public-private partnerships (PPPs) and their potential impact on the profitability of the energy sector, particularly in a developing and emerging country such as Albania, is really a 'very interesting' and 'good contribution' to the previous literature. However, to enrich and enhance this interesting study with more analytical aspects, I suggest that the authors add 'further clarification' about whether PPP policies in the energy sector have had appropriate support from the state government and political leadership. I see, from my research background in PPPs (see Alsaid, 2021), that this governmental and political support will enable the energy sector to eliminate current and future challenges to sustainable profitability. According to Alsaid (2021) Egyptian experience, there was strong support for the implementation of PPP policies in the energy sector, which contributed 'financially' to the successful enforcement of smart city governance projects in Egypt. Here too, it may be better to present some comparative studies that reflect the failure (success) of PPP policies in developed and emerging countries. This helps readers to better understand different perceptions regarding the potential impact of PPPs on profitability in different institutional contexts. From your interesting findings, this study can be enriched by adding some (future) recommendations and ambitions on how to develop the energy sector and how to implement PPP policies sustainably.

For your reference:
Alsaid, L. A. Z. A. (2021). Performance measurement in smart city governance: A case study of an Egyptian city council. *Journal of Accounting in Emerging Economies, 11*(3), 395–430. https://doi.org/10.1108/JAEE-09-2020-0244
Thank you again for this interesting topic and best wishes!

***Junada Sulillari***: Dear Loai, thank you so much for your feedback as well as for your recommendations. I definitely agree with you the suggestions that you have mentioned and will try to take them into consideration in our research work. The truth is that there are many challenges that PPPs are facing, and especially in the energy sector. Governmental support that you have mentioned is also something that really needs to be treated in our research. Thanks again for all your comments, which will definitely be useful for our research.

## HIGH PERFORMANCE WORK PRACTICES AND EMPLOYEES WELL-BEING: THE ROLE OF WORK INTENSIFICATION AND SELF-EFFICACY

***by Bashar Al-Majali and Mohammad A. Ta'Amnha***

***Dmitriy Govorun***: Dear Bashar Al-Majali, Mohammad Ta'Amnha, thank you very much for raising the topic of high performance work practices. I support your conclusion that "...organizations can get the best out of their workers by offering them more organizational resources and enhance their personal resources...". My question is the following. Have you tried to measure such an effect? I mean is it possible to use some figures like differences in day-offs, leaves, etc.

***Mohammad A. Ta'Amnha***: Dear Dmitriy Govorun, many thanks for reading our work. I agree with you concerning the importance of combining both organizational and individual resources to enhance the employees outcomes. We did not consider these metrics in our study but your recommendation will be considered in our future research. Many thanks!

***Karen M. Hogan***: Thank you for this important work. It is important to understand what makes necessary workers happy in their positions so that there continue to be experienced long-term healthcare workers. Papers like this will allow those important questions to be asked.

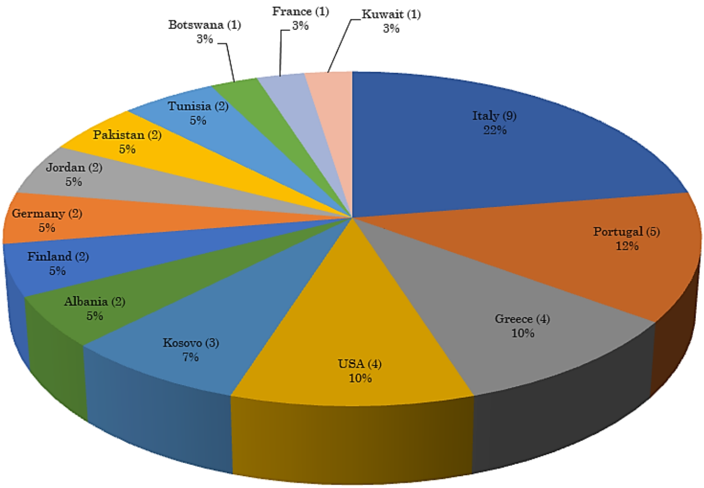
***Dmitriy Govorun***: Thank you very much for your reply. While thinking over the idea of HPWP remembered the trend concerning the workdays reduction (4-days week). It does not relate to the research directly. But is this a case to discuss in healthcare industry workers? What are your thoughts on that?

***Junada Sulillari***: Dear Bashar and Mohammad. The topic that you have chosen to analyse is really interesting and important. You have emphasised many important factors that might impact the health and well-being of the healthcare employees. I am just wondering about the support that can be given to these employees in the presence of COVID-19 pandemic. What would you suggest would be the best support that can be given to them in this situation? What mechanisms would you suggest that would be the best to improve the health and well-being of these employees?

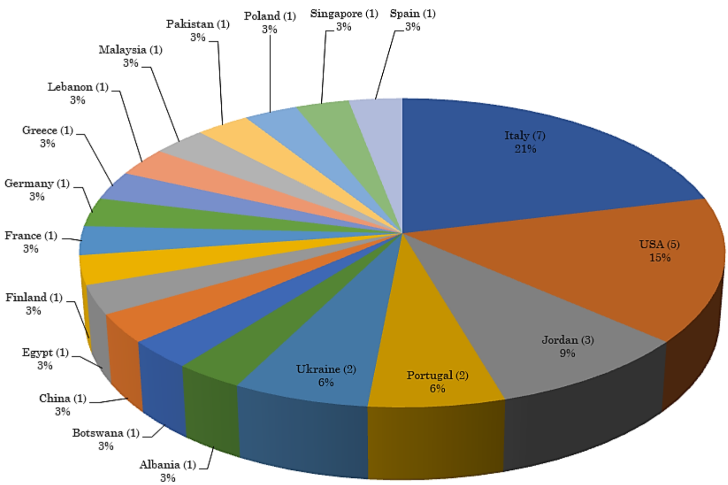
# CONFERENCE INFOGRAPHICS

## 1. Conference forum participants, discussants, attendees

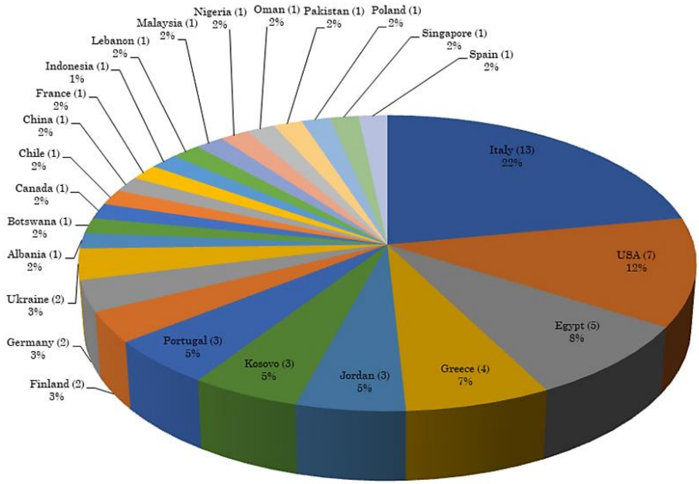
### Conference forum presentations authorship — geographical representation




### Conference forum comments authorship — geographical representation

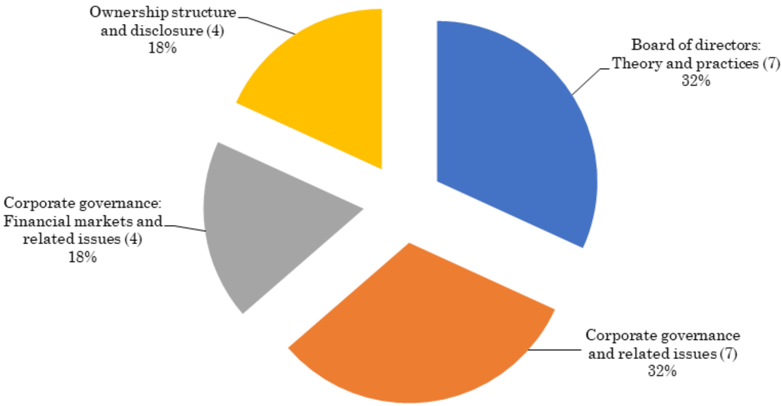


# Conference forum attendees — geographical representation

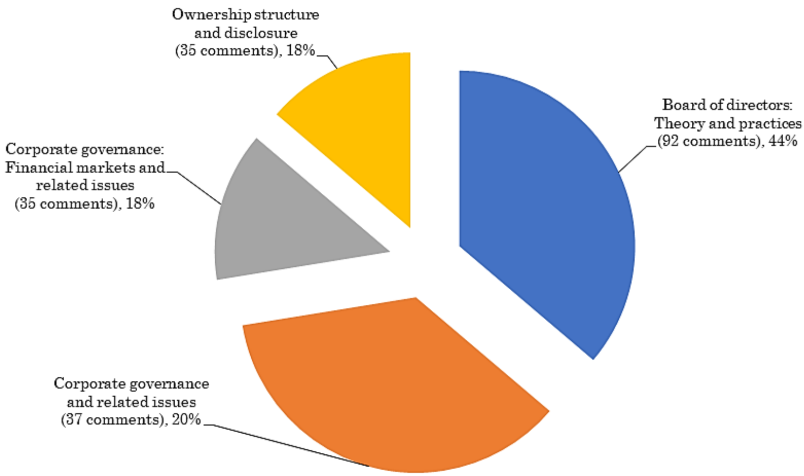


# 2. Conference forum presentations and comments

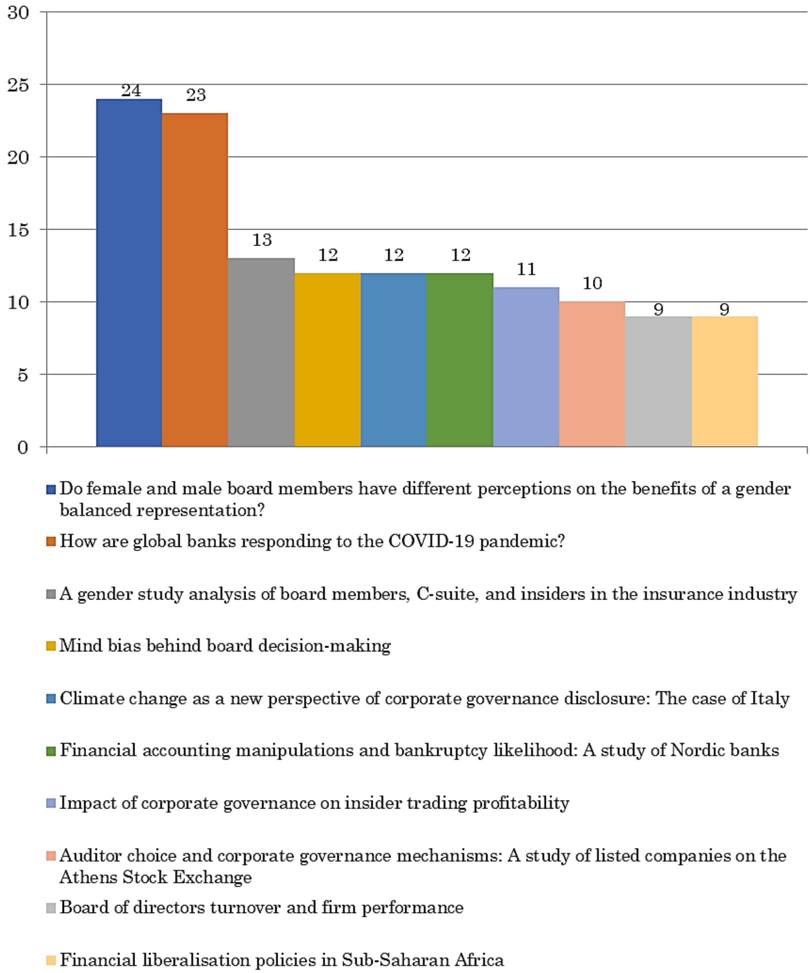
## Topics of the conference forum presentations



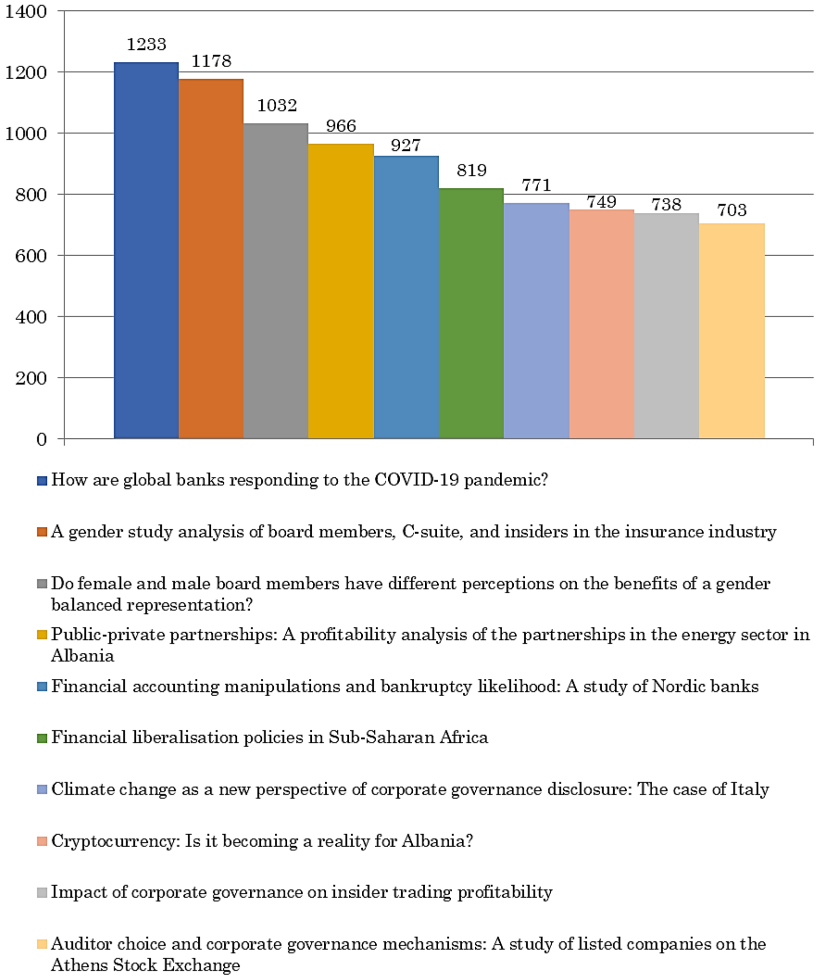

## Conference forum comments – topics discussed



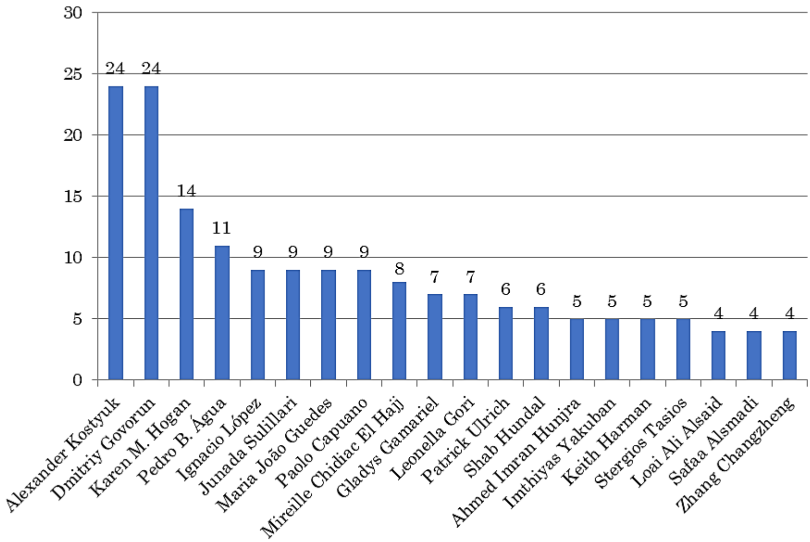
## Conference forum comments — top-10 most discussed presentations (by number of comments)



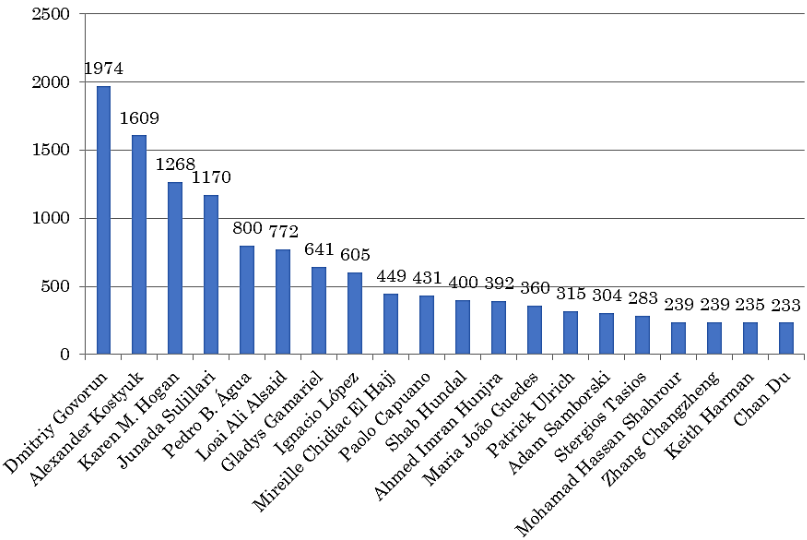
## Conference forum comments — top-10 most discussed presentations (by volume of comments (words))



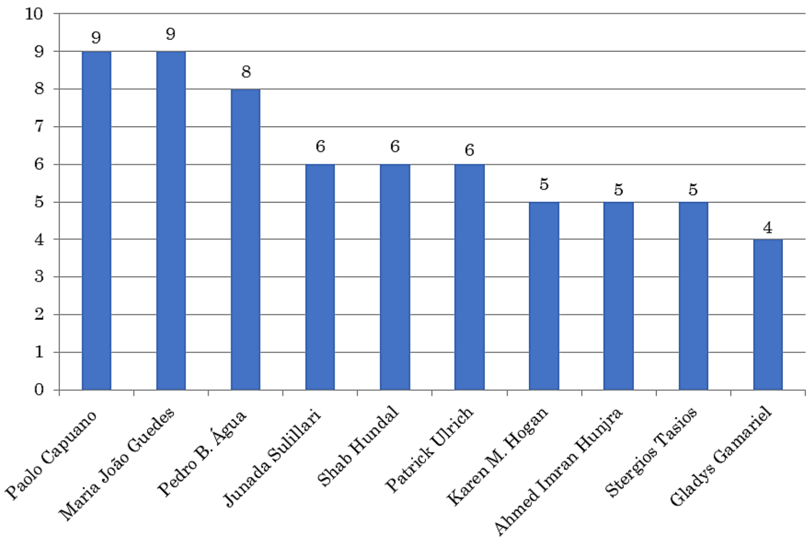
## Conference forum comments — top-20 most commenting discussants (by number of comments)




## Conference forum comments — top-20 most commenting discussants (by volume of comments (words))



## Conference forum comments — top-10 most commenting presenters (by number of comments)

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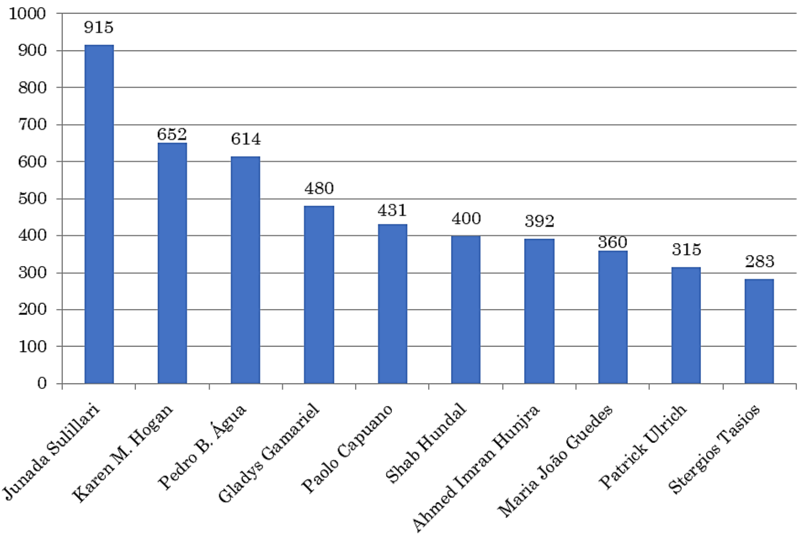

# CONFERENCE FORUM DISCUSSANTS INDEX

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