

**CORPORATE BOARD:
ROLE, DUTIES & COMPOSITION**

**СОВЕТ ДИРЕКТОРОВ: РОЛЬ,
ОБЯЗАННОСТИ И СОСТАВ**

Postal Address:

Postal Box 36
Sumy 40014
Ukraine

Tel: +380-542-698125
Fax: +380-542-698125
e-mail: alex_kostyuk@mail.ru
alex_kostyuk@virtusinterpress.org
www.virtusinterpress.org

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Почтовый адрес редакции:

Почтовый ящик 36
г. Сумы, 40014
Украина

Тел.: +380-542-698125
Факс: +380-542-698125
эл. почта: alex_kostyuk@mail.ru
alex_kostyuk@virtusinterpress.org
www.virtusinterpress.org

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EDITORIAL

Dear readers!

This issue of the journal is devoted to several issues of corporate board practices.

Gregorio Sanchez-Marin states that in Spanish listed firms, taking into account the predominant modes of ownership structure, which are characterized by a high concentration of shares in the hands of a few shareholders who are strongly represented on the board of directors, it might suppose that there are strong stimulus for a close top managers' supervision and a straight interest alignment. However, the empirical evidence indicates the opposite, and the author says that this paradox needs to be explained within the theoretical framework of institutional theory. The high concentration of ownership and the high level of cross-holdings generate conflicting interests by those who have multiple roles as directors and top managers, suggesting that board's supervisory effectiveness may be compromised by social pressures in search of legitimacy. These features of Spanish firms are undermining governance mechanisms, and may explain the high pay levels, the low variable packages and, in general, the lack of connection between top managers' compensation and firm performance in comparison with those in other countries of Continental Europe.

Shireenjit K. Johl, Beverley Jackling and Dimuthu A. Kothalawala examines disclosure practices of the top 100 Australian firms prior to the mandatory reporting of carbon practices. Specifically, their study investigates the relationship between voluntary carbon related disclosure and governance mechanisms, such as board and audit committee independence, audit committee financial expertise and the existence of a voluntary committee dedicated to environmental/climate change related matters. Their paper utilises a quantitative approach employing two regression based estimations. The results suggest that two governance-related variables, namely, audit committee financial expertise and the existence of a voluntary committee dedicated to environmental/climate change strongly influences the level of voluntary carbon disclosure.

Shinya Shinozaki, Konari Uchida in their analyses of 10,390 companies from 51 countries, find that in countries that have small capital markets free cash flow is positively related to board size. However, this positive relation becomes significantly weak for companies in large securities markets. This result suggests that managers in underdeveloped capital markets have an incentive to construct less effective boards to extract private benefits. However, the distorted managerial incentive is alleviated in developed countries that have various disciplinary mechanisms to ensure good governance practices. They do not find clear evidence that legal protection of shareholder rights mitigates the managerial incentive to construct less effective boards.

Emiliano Di Carlo, Silvia Testarmata proposes a definition of directors' conflict of interests (CoI) by critically reviewing the academic literature. Then, they present an exploratory study, based on a content analysis of the leading Italian listed companies that sought to empirically assess the directors' CoI definitions provided by corporate codes of ethics. They found that despite the presence of CoI statement within corporate codes of ethics, CoI definition is often absent, when present it is not always clear, and differs widely among firms. The consequence is that CoI recognition could be not easy and remedies to prevent and resolve directors' CoI lose their practical utility.

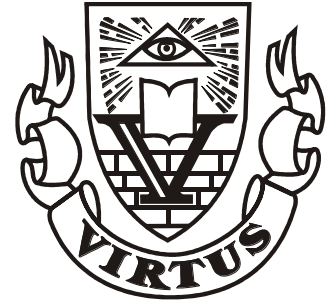
Harilaos Mertzanis states that the global financial crisis has posed challenges to financial institutions governance. Meeting these challenges requires an understanding of governance dynamics in relation to institutions' performance within a changing environment. The nature and scope of institutional response to a changing environment depends upon inherited governance structures, including socioeconomic conventions and rules of behavior at the macro

level and time, expertise and common commitment of directors at the micro level. Innovation and learning-by-doing in governance can be an effective reform strategy. Innovation in governance may include the establishment of new norms of economic behavior and the transformation of decision-making process and the reallocation of responsibilities to directors and senior management. This may also inform regulatory approaches in strengthening financial institutions governance, based on improved disclosure, independent and competent boards.

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