EDITORIAL: A search for the best practices and standards

Dear readers!

It is my pleasure to present the editorial note for the first issue in 2019 of the journal "Corporate Board: Role, Duties, and Composition".

This issue includes four papers that embrace major challenges for the board of directors. John M. Holcomb, Hugh Grove & Maclyn Clouse examine whether ethics and compliance committees play a key role in improving firm value with regards to stock market and financial performance. George Drogalas, Alkiviadis Karagiorgos, Michail Pazarskis & Nikolaos Vagenas investigate the potential existence of informal interactions between the audit committee and internal audit function in Greek firms and identify the main drivers for these interactions. Ahmed S. Alanazi focuses on the different to which the board of directors affects the quality of corporate governance in the Saudi stock market. He studies many board attributes such as board size, board independence, presence of executives on board, frequency of board meetings, and the number of board committees. Almost the same board characteristics are studied by Frank Gyimah Sackey, Paul Kwame Yeoobaah & Joseph Diawuo Anane Owusu to assess the relationship between boards of directors and bank performance in Ghana.

Boards of directors play an important role in the protection of shareholders’ interests. Directors play an essential role and are the best placed to closely monitor managerial actions, thus contributing to the reduction of agency problems between managers and external shareholders (Boubaker & Nguyen, 2012a, 2014, 2014a; Hill & McDonnell, 2013; Zubaidah, Kamal, & Kamaruzaman, 2014; Schellenger, Wood, & Tashakori, 1989). However, there remains much to learn about the disciplinary role of specialized committees of the board of directors. In their study, John M. Holcomb, Hugh Grove & Maclyn Clouse focus on ethic and compliance committees. They examine the effects of these committees on stock market value and on firm financial performance. They show that ethics committees notably perform the Fortune 500 companies considering the key stock market and financial accounting performances. They interpret their findings as evidence that investors reward companies that create board-level ethics and compliance committees (Harris, 2014). They also highlight the effectiveness of ethic and compliance committees in improving management decisions by ensuring compliance with existing laws and regulations and anticipating the future direction of laws and regulations.

The majority of studies on the role of board’s committees are from the United States (Hogan, Schmidt, & Thompson, 2014; Stucke, 2014), with little contribution from the other regions. The study of George Drogalas, Alkiviadis Karagiorgos, Michail Pazarskis & Nikolaos Vagenas on audit committees is conducted in the Greek context, which advances our knowledge on how such a key committee performs in this specific country. In particular, they investigate how and whether informal interactions between audit committee and internal audit determine the monitoring role of the audit committee compared to the internal audit tasks. While most of prior studies in this area of research focus on formal interactions between audit committee and internal audit department (Arena & Azzone, 2009; Boubaker, Buchanan, & Nguyen, 2016; Sarens, De Beernaere, & Vandenbroucke, 2009; Chan, Li, 2008; Kostyuk, 2005; Sala, Addu, & Adober Mensah, 2019), the authors examine informal interactions between the two structures using a questionnaire administrated to publicly listed Greek entities and hence significantly contributes to very limited research on this type of interactions (Turley & Zaman, 2007; Koutoupis & Pappa, 2018). The informal nature of these interactions comes mainly through informal procedures, such as personal contacts and non-official meetings. The results of the questionnaire show that audit committees with independent members and more skilled and experienced chair are more likely to use informal interactions with internal audit to better perform their monitoring role. The study also documents the importance of the characteristics of chief audit executives, namely independence, experience and objectivity, in developing such informal interactions. The evidence from this paper extends our understanding on how audit committees play an effective corporate governance mechanism.

Another important issue is addressed by the articles of this issue is related to the quality of the board of directors (Alshimmiri, 2004; Anderson & Reeb, 2004; Basyith, Faizu, & Idris, 2015; Davidson & Rowe, 2004; Dehaene, Vuyt, & Ooghe, 2001; Erhardt, Werbel, & Shrader, 2003; Baysinger & Butler, 1983). In particular, the question of the effect of board characteristics on corporate governance quality is addressed by Ahmed S. Alanazi for the first time in Middle Eastern context, i.e., Saudi Arabia, in which economic and cultural specificities typically make the role of boards of directors markedly different from that in other settings. The study of Ahmed S. Alanazi shows, indeed, that, contrary to the dominant view in the corporate governance literature (Boubaker, Nguyen, & Nguyen, 2012; Hermalin & Weisbach, 2003; Coles, Daniel, & Naveen, 2008; Abdulsamad, Yusoff, & Lasyoud, 2018), the quality of corporate governance is positively associated with board size and negatively related to board independence. The author explains that effectiveness of larger boards remains supported theoretically by the evidence that many directors are more capable of carrying out the board’s duties and establishing effective committees (Laksmana, 2008; Goodstein, Gautam, & Boeker, 2004) as well as by some rare empirical evidence (Dalton, Daily, Johnson, & Ellstrand, 1999; Guest, 2009). Ahmed S. Alanazi, however, imputes the negative effect of independent boards on corporate governance quality to possible bias in the measurement of board independence, given that many corporations, in Saudi Arabia, may report members as independent, while they are not necessarily independent to satisfy the regularity requirements of having majority independent members on board.
The study of Gyimah Sackey, Paul Kwame Yeboah, & Joseph Diawuo Anane Owusu provides an additional insight into our understanding of corporate governance in the banking sector (Andres & Vallelado, 2008; Grove, Patelli, Victoravich, & Xu, 2011) by investigating the disciplinary role of board of directors in rural and community Ghanaian banks. In addition to being an emerging and developing market, Ghana features regions having a high number of community and rural banks, which activities and services are substantially different from those of commercial banks. This study contributes hence to corporate governance by providing more empirical evidence at the local level. The results are also of particular interest as they show that financial performance of banks increases with board size and female presence and decreases with board diversity. Interestingly, the paper’s findings are in line with the regulations requiring Ghanaian Rural Banks to choose a fair distribution of gender in the boardroom and more independent board members.

A long line of research documents the crucial role that the board of directors plays in the reduction of agency costs. This issue of the journal goes further to explore a variety of environments, ranging from a highly developed economy, i.e., the United States, to a less developed economy, i.e., Greece and even developing ones, i.e., Saudi Arabian and Ghana. The results documented by the papers from this issue reflect the specificities of the environment in which companies are operating. Moreover, the channels through which the board of directors affects agency costs remain very little documented. Two papers that are published in this issue shed new light on this topic by showing that boards might improve firm performance by enhancing corporate governance quality and developing informal communication within the firm.

To conclude, the articles of the present issue are dealing with recent topical research questions that are related to the pivotal role of the board of directors in the modern corporate governance system (Al-Baidhani, 2014; Bassen, Kleinschmidt, & Zollner, 2006; Bavoso, 2018; Calza, Profumo, & Tutore, 2017; Cerrone, 2018; Dell’Atti, 2018; Johnson, Daily, & Ellstrand, 1996; Kostyk & Tutino, 2019; Kostyk, Stiglbauer, Veite, Lapina, & Riabichenko, 2014; Napoli, 2019; Pfeffer, 1972; Wood & Small, 2019). Indeed, the continuous development of boards’ roles, practices and regulations brings about the need for more serious research on this entity. Hopefully, this issue of Corporate Board Journal brings major clarifications on the emerging challenges for boards of directors and establishes some new directions for future research.

We hope that you will enjoy reading this issue of our journal!

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REFERENCES


