View metadata, citation and similar papers at core.ac.uk

brought to you by CORE

provided by University of Liverpool Repository

Editorial

Special Issue: Review of Corporate Governance

Advancing the Corporate Governance Research Agenda

Ruth V. Aguilera[1], Chris Florackis[2]* and Hicheon Kim[3]

[1] Northeastern University, D'Amore-McKim School of Business

[2] University of Liverpool, Management School, Department of Economics, Finance and Accounting; Tel. +44 (0)1517953807; Email: c.florackis@liv.ac.uk
[*] *Corresponding Author*

[3] Korea University Business School

ACKNOWLEDGMENTS

We would like to thank the Editors Praveen Kumar and Alessandro Zattoni for insightful comments and suggestions. The third author acknowledges the partial support of the Korea Business School Research Grant.

INTRODUCTION

The last few decades have witnessed an explosion of research on corporate governance from a wide array of academic fields including finance, accounting, management, economics and sociology (Aguilera & Jackson, 2010; Aguilera, Desender, Bednar, & Lee, 2015; Filatotchev & Boyd, 2009). This rising academic interest in corporate governance has been in part triggered by corporate scandals, public outcry on lavish executive compensation (Dorff, 2014), and perceived irresponsibility of some big banks and corporations in recent years. Nonetheless, there are some enduring reasons why corporate governance has attracted substantial interests in diverse academic fields. Corporate governance plays a fundamental role in allocating resources and responsibilities within and across firms, thereby affecting strategic choices as well as value creation and distribution within individual organizations, alliances, and even across countries. As such, understanding the behavioral and strategic choices and the ultimate performance of organizations, alliances, and countries requires an intimate knowledge of involved governance dimensions.

Moreover, corporate governance is socially constructed in terms of how it is perceived and legitimately accepted, which in turn reflects and influences the institutional logics[1] embedded in corporate goals and controls (Aguilera, Desender, Bednar, & Lee, 2015). As these norms and believes of what it is the acceptable corporate behavior often differ widely across industries, countries, and regions, and they tend to evolve over time, so do the notion and practices of corporate governance. Thus, the study of norms and practices on corporate governance at a given period of time in a country often entails more than addressing questions on corporate governances from purely economic and legal perspectives, and necessitates instead a broader attention to societal norms, cultural attributes, and ethical

values.

Despite the complexity of issues around corporate governance, a disproportionate share of prior work has been conceptualized and guided by *agency theory* (Shleifer & Vishny, 1997). Since the seminal publication by Berle and Means (1932) recognizing the alienation of ownership from control and its concomitant agency conflicts, a great number of studies in the tradition of agency theory have focused on designing governance mechanisms necessary to prevent the manifestation of agency conflicts and to ensure that the firm operates in the best interests of shareholders. However, the validity of some of their findings and subsequent recommendations have been challenged since assumptions and theoretical foundations underlying agency theory may be too narrow or even invalid (Aguilera & Jackson, 2003; Davis, Roberts, McNulty, & Stiles, 2005; Schoorman & Donaldson, 2007).

More recent work has sought to relax the assumptions behind agency theory in order to enrich our understanding of corporate governance, particularly as we expand outside the premises of the shareholder value maximization governance model which has characterized the Anglo-Saxon world. We discuss three fruitful implications of the relaxation of agency assumptions. First, early work on agency theory tends to assume away the significance of identities of owners, relying on ownership concentration as an indicator of agency conflicts or of monitoring effectiveness. However, research on the relationship between ownership concentration and performance fails to produce consistent findings (Dalton, Daily, Certo, & Roengpitya, 2003). Morck, Wolfenzon, and Yeung (2005) emphasize the potential conflicts between controlling shareholders and minority shareholders.

Studies in management also develop this idea of "conflicting voices" and "principal-principal conflicts" to recognize that different owners may have different preferences and

time horizons, and that there may even be conflicts of interests among different owners (Connelly, Tihanyi, Certo, & Hitt, 2010; Desender, Aguilera, Crespi-Cladera,& Garcia-Cestona, 2013; Dharwadkar, George, & Brandes, 2000; Hautz, Mayer, & Stadler, 2013; Hoskisson, Hitt, Johnson, & Grossman, 2002; Young, Peng, Ahlstrom, Gruton, & Jiang, 2008; Zheng, 2010). Different owners may even be attracted to different firms depending upon value orientation such as prosocial orientation (Zeitoun & Pamini, 2015). This tension gets even more pronounced when the owners are from different countries and in turn equipped with distinct shareholder activism practices as Japanese firms experienced during the raise of hedge fund activism post Asian crises (Buchanan, Chai, & Deakin, 2014). As a consequence, a richer examination of heterogeneity among owners is necessary for designing and implementing effective governance practices.

In this vein, three articles in this special issue provide focused reviews on specific types of owners. First, Grosman, Okhmatovskiy, and Wright (2016) study an idiosyncratic yet not homogeneous type of owner, the state. They show through an implicit comparison of China and Russia that national political and strategic interests are highly embedded in the firms' governance strategies as well as the type of state capitalism that these countries pursue. Second, McNulty and Nordberg (2016) examine different modes of shareholder engagement on what they refer to "active ownership." Specifically, they develop a process model of institutional investors' engagement and mutual exchange with managers and other owners, taking a longer-term perspective towards investment in the firm and its affairs. These authors show that psychological ownership is an important dimension to capture who owners are and to define how owners and managers relate to each other. Finally, the type of owners will certainly determine the type of board as well as these boards' diversity. This is a missing link

that the article by Gabaldon, de Anca, Mateos, and Gimeno (2016) is seeking to establish when presenting a systematic discussion of the supply-side and demand-side barriers as well as the mechanisms to overcome these barriers in the under-representation of women in boards.

Second, agency theory maintains that shareholders, not other stakeholders, are residual claimants in the firm (Fama & Jensen, 1983). Residual claimants are supposed to bear residual risks and take all the residual profits left over after the firm satisfies its legal obligations to stakeholders (e.g., interests to creditors, wages to employees, taxes to the state). If, indeed, shareholders are the only residual claimants in the firm, the efforts of maximizing shareholder wealth would enhance firm performance and improve social welfare as well. However, a series of scholars examining the breath of stakeholders in more detail (Blair, 1995; Garcia-Castro & Aguilera, 2014; Stout, 2012; Zeitoun & Pamini, 2015, just to cite a few) argue that stakeholders like employees often make substantial firm-specific investments and bear residual risks as well in the case of insolvency or layoffs. In this case, the efforts of maximizing shareholder wealth alone may distort resource allocation within and across firms, generating unintended consequences at the societal level. Zattoni (2011) introduces a contingency model where he proposes an alignment between stakeholder contributions and ownership rights.

For instance, the article by Srivastav and Hagendorff (2016) in this special issue points out the problems of viewing shareholders of banks as the only residual claimants and taking shareholder-focused approach in the banking industry. Since banks are highly leveraged, and their liabilities are often guaranteed by the state (or taxpayers), shareholder-focused governance may well subordinate the interests of other stakeholders and exacerbate

risk-taking concerns in the banking industry (Srivastav & Hagendorff, 2016). Zalewska (2016) shares similar concerns when she states that structuring bankers' remuneration to maximize shareholder value does not necessarily reduce the systemic risk of the banking sector. Thus, designing and implementing governance mechanisms may entail an assessment of incentives and disincentives faced by all the stakeholders that potentially contribute to firm performance. On a broader level, an increasing interest in corporate social responsibility might also reflect the growing recognition of the significance of stakeholder engagement (Bundy, Shropshire, & Buchholtz, 2013). Some firms are more social responsible than others, and part of it is determined by their ownership incentives and interests (Rees & Rodionova, 2015); whether and how important the consideration for social responsibility is in resource allocation and decision making are influenced by corporate governance design, as summarized in the article by Jain and Jamali (2016) in this special issue.

Third, agency theory overlooks as to how institutional environments shape the degree and nature of agency conflicts and the effectiveness of corporate governance mechanisms (Aguilera & Jackson, 2003; Tihanyi, Graffin, & Geoge, 2014). Since most previous research has focused on U.S. firms, institutional environments might be neglected in theorizing. However, recent work clearly demonstrates that there are substantial variations in institutional environments along dimensions such as investor protection, creditor rights, employee voice, disclosure levels around the globe, just to cite a few. It is also shown that these institutional variations play a critical role in explaining cross-national differences in corporate governance mechanisms accordingly (La Porta, Lopez-de-Silanes, & Shleifer, 2006; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000; Adams, Licht, & Sagiv, 2011; Hooghiemstra, Hermes, & Emanuels, 2015). For instance, a recent stream of research has

addressed corporate governance in emerging economies such as China or India, whose institutional environments are less developed or quite different from those of advanced economies (Chen, Liu, & Lin, 2015; Huyghebaert & Wang, 2012; Lattemann, Fetscherin, Alon, Li, & Schneider, 2009; Li, 2013; Singh & Gaur, 2009; Zhang, Gao, Guan, & Jiang, 2014; Zhang, Chen & Feng, 2014; Nagar and Sen, 2015). Business groups are claimed to be an organizational form to overcome market imperfections prevalent in emerging economies (Colpan, Hikino, & Lincoln, 2010; Khanna & Palepu, 2010). They exhibit unique governance challenges as well as attributes to overcome broader strategic issues such as institutional voids or competitiveness as summarized by Colli and Colpan's (2016) article in this special issue. In addition, institutional elements in a country tend to complement each other, giving rise to the varieties of capitalism (Hall and Soskice, 2002), and national business systems (Whitley, 1999).

In recent years, an increasing number of studies have come to take national institutional environments more seriously. A promising yet underdeveloped body of literature takes a comparative approach to highlight cross-national institutional differences and their implications on corporate governance and performance (Schiehll, Ahmadjian, & Filatotchev, 2014). Indeed, the review article by Schiehll and Martins (2016) in this special issue compiles the evidence that national institutional environments not only affect the firm-level choice of governance mechanisms, but they also interact with firm-level governance mechanisms to influence firm performance. Similarly, one of the most well-researched cross-national governance dimensions has been the rule of law and in particular, minority shareholder rights. Cuomo, Mallin, and Zattoni's (2016) article in this special issue shed further light on this research by discussing the co-existence of some very successful soft law "comply or explain"

codes of good governance with hard law regulation, as well as the emergence of more normatively effective transnational governance.

SYNOPSES OF INCLUDED ARTICLES

Drawing upon the 89 empirical studies published in the fields of accounting, finance, and management between 2003 and 2014, Schiehll and Martins (2016) develops in this special issue a systematic literature review on cross-national comparative studies. In these studies, they find the "substantial variation in the use and measurement of country-level factors as well as a variety of causal forms used to explain the combined effects of country- and firm-level governance mechanisms." To appraise and synthesize these cross-national comparative studies, the authors first classifie them into two categories: the ones exploring how country-level governance factors influence firm-level governance mechanisms and the ones exploring how country-level and firm-level governance mechanisms are combined to influence firm performance. Then, they compile the findings of these studies by causal model forms: additive, intervening variable, independent variable interaction, and moderator variable interaction. In doing so, their article represents an excellent review of the current literature, pointing out future research opportunities.

Grosman, Okhmatovskiy, and Wright (2016) review the extant interdisciplinary literature on state control and corporate governance in transition economies since the fall of the Berlin Wall. They discuss how state control has evolved as countries transition from centrally-planned to market based economies and how in turn firms' corporate governance adjusts to these significant changes in not only ownership but also logics. The article sheds light on the wide range of forms of state control beyond direct majority ownership which has

important consequences for governance. Their study focuses mostly in China and Russia and there is an implicit comparison of state-controlled firms across these two transition economics. They conclude with a set of research questions by inviting scholars to explore more deeply the means of state control, their associated corporate governance structures and processes, and of course urge not to neglect the institutional context in which these relationships take place.

Cuomo, Mallin, and Zattoni (2016) revisit the classic topic of codes of good governance in light of the 2008 global financial crises as well as related corporate governance scandals which question the effectiveness of soft law governance mechanisms such as codes as well as the overall governance regulation. They begin the article with a renewed definition of codes of good governance as well as an assessment of their diffusion around the world. Then, they turn to a systematic review of research on codes of good governance where they distinguish between country-level and firm-level studies on codes. Throughout their article, the question of compliance and enforcement emerges as a driving force for change. Moreover, these authors pay particular attention to the challenges of the co-existence of hard and soft law as well as the increasing salience of transnational codes of good governance such as the OECD code.

Aktas, Croci and Simsir (2016) focus on the well-developed and growing strand of the literature that links corporate governance with takeover outcomes. By adopting an agency perspective and reviewing both empirical and theoretical research, they provide useful insights for the design of effective governance mechanisms that can improve the efficiency of the takeover market. In particular, the governance mechanisms considered include the board of directors and executive compensation, the takeover market and pressure from financial

market participants, product market competition and the labor market. Their findings demonstrate the important role of both internal and external governance in improving takeover outcomes. They conclude by offering important avenues for future research such as the study of the long-term effects of takeovers on firm's financial performance and the use of quasi-natural experiments to deal with the endogeneity issue.

Taking a broader perspective on corporate governance as the "structure of rights and responsibilities among the parties with a stake in the firm" and focusing on the "organizational processes through which different CG [corporate governance] mechanisms interact and affect corporate financial and social outcomes," Jain and Jamali (2016) in the special issue provide a systematic overview of work on the relationships between corporate governance and corporate social responsibility. They examine 94 peer-reviewed journal articles published between 2000 and 2015, categorize their findings by the level of corporate governance variables: formal and informal institutions at the institutional level, ownership structure and identities of owners at the firm level, board structure, and director social capital and resource network at the group level, and CEO's demographics and socio-psychological characteristics at the individual level. Their article offers an excellent summary of the current literature, concluding by offering future research directions.

Colli and Colpan (2016) engage in an extensive review of a massive yet "siloed" (or segmented) literature on business groups. Their goal is to dissect from this large body of research what have we learned on how business groups design their corporate governance. After a brief discussion on how governance fits within the study of different types of business groups as well as highlighting the main theoretical approaches that have been used to tackle this complex issue, they propose an organizing framework (see their Figure 1) in which they

categorize research addressing governance issues in business groups published in a wide array of disciplines: business, management, finance as well as business history journals. Their organizing framework allows them to pursue an insightful examination of research on: (1) the nature of the ownership in business groups, (2) intra-group mechanisms for control and coordination, (3) the relationship between the two; and (4) a deep exploration of organizational and performance outcomes. Colli and Colpan (2016) conclude their article by proposing "four high priority avenues" of future research which include specific and fruitful recommendations on where to take future research of business groups next.

John, De Masi and Paci (2016) review the literature on the governance of banks. They firstly discuss several unique features of the banking industry, such as restrictive regulation, increased reliance on debt and complexity of operations, which have important implications for bank governance. A novelty of their survey is that it evaluates bank governance by taking into account the objectives of depositors and the society-at-large, in addition to those of bank shareholders. The second part of their study focuses on the effectiveness of several governance mechanisms available to banks (e.g. board structure and quality, ownership structure, incentives) in a cross-country context. Their findings suggest that a multiple stakeholder perspective is required to fully understand what constitutes good governance for banks.

Zalewska (2016) provides a comprehensive review of the literature on the regulation of bankers' remuneration. Similar to John, De Masi and Paci (2016), the first part of her study focuses on the "specialness" of banks, which arises from the riskiness of their assets, their interconnectivity and their systemic importance to the economy. Such features necessitate a unique regulatory treatment of banker's remuneration that goes beyond merely resolving the

“traditional” principal-agent conflict. The second part of her study discusses the literature on regulation of bankers’ remuneration and the current state of regulatory developments in the area. The study concludes that a new theoretical framework is required to address the failure of existing theories of corporate governance for setting goals and performance metrics for the banking industry. A second important conclusion of Zalewska’s study is that regulators should be involved in setting remuneration structures. However, it is by no means certain that overzealous regulatory reforms in banker’s remuneration, especially those ignoring the complexity of the banking sector, will be effective in strengthening the banking industry.

Srivastav and Hagendorff (2016) also focus on banks and review the extant literature on corporate governance and bank risk taking. Their survey provides useful insights into how the effectiveness of bank boards, the structure of CEO compensation, and the risk management systems of banks can mitigate excessive risk-taking. The findings of their study are set against the background of several recent regulatory reforms that are driven by the need to protect the interests of specific groups of stakeholders. They conclude that the design of governance mechanisms and any regulatory reform initiatives should reflect the interests of bank shareholders, but also those of creditors and taxpayers. Their survey points out several opportunities for future research on bank risk-taking.

McNulty and Nordberg (2016) engage in a constructive and provocative discussion of shareholder activism by revisiting the question of who owns the corporation and pushing forward the construct of “active ownership.” They define active ownership as a process of long term investor-firm interactions where the development of relationships is critical. The authors anchor their review in uncovering the interests and motivations of heterogeneous institutional investors in how some of them engage in various forms of “voice.” In addition to

the more conventional approaches to ownerships such as market and institutions, they discuss how active ownership also encompasses psychological ownership. Their arguments are presented in a comprehensive process framework which takes institutional shareholders through the antecedents, processes and effects leading to distinct firm outcomes.

Stathopoulos and Voulgaris (2016) focus on Say-on-Pay, a recently developed form of shareholder activism that manifests itself through the expression of voice on the executive pay-setting process. Their study reviews and critically evaluates existing research on Say-on-Pay and its effects on firm value and corporate decision-making. It also provides a general picture of the state of the shareholder activism literature, and in particular, the two main avenues for shareholder intervention in firm governance: “Exit” and “Voice”. Their findings clearly demonstrate that there is no consensus within the academic community about the effectiveness of Say-on-Pay as a corporate governance mechanism. Importantly, the authors identify conceptual gaps and empirical discrepancies in prior studies and suggest promising directions for future research.

Gabaldon, de Anca, Mateos de Cabo and Gimeno (2016) develop a well-organized and systematic review of the extensive literature of women on boards. Once they established that despite recent policy and corporate efforts to break the glass ceiling, women are as not as present in boards as men, they discuss the supply and demand-side barriers. In particular, they argue that the supply-side barriers fall into three categories: gender differences in values and attitudes, identification with gender role expectations, and work family conflict. Regarding the demand-side barriers accounting for the under-representation of women in boards, they attribute it to gender discrimination, bias perceptions of what women might bring to the board, and the institutional environment. Interestingly, once they have reviewed this

literature, they discuss the instruments and means that could overcome or minimize these barriers. They conclude by proposing a set of unanswered research issues that any research on gender and governance should seriously consider.

DISCUSSION AND FUTURE RESEARCH DIRECTIONS

Agency theory has long been the dominant theoretical lens for corporate governance research. However, the recent studies have pushed the field beyond the often narrow conceptualization of agency conflicts and corporate governance and have taken seriously the identities of owners, stakeholder engagement, and national institutional environments to address the complexity of corporate governance issues. Theoretical lens have also been expanded to include institutional theory, stakeholder theory, resource dependence theory, cognitive paradoxes, and institutional economics among others. Overall, our knowledge about corporate governance has been substantially improved in the last decade, some of which is well summarized, critiqued, and synthesized by the twelve articles in this special issue.

However, we believe that there is still a lot to learn by further challenging and relaxing the core assumptions of agency theory. Here we introduce several new directions and issues to consider. First, new types of investors such as hedge funds, private equity funds, sovereign wealth funds, socially responsible investors, and crowdfunding have emerged and added to the heterogeneity of shareholders. Not only do these new types of investors constitute different sources of capital coupled with distinct interests, but they also provide different challenges on corporate governance. For instance, hedge funds in the U.S. have increasingly engaged in shareholder activism (Brav, Jiang, Partnoy, & Thomas, 2008). Some

argue for hedge fund activism as benefiting shareholders; others criticize it as distracting executives from important projects. The deeper knowledge of hedge funds is necessary to understand whether and how hedge fund activism differs from activism by other institutional investors such as mutual funds and pension funds. The in-depth research about these heterogeneous owners, how they cope as co-owners, their organizational form, incentive structure, and monitoring capabilities should offer a fruitful avenue for future research.

Second, future research should further disentangle the antecedents to and consequences of stakeholder engagement in corporate governance. The diversity in stakeholders seeking to influence the firm and their mechanisms has expanded in recent years, making it more complex and difficult to accommodate their differing interests in the design of corporate governance (Bundy, Shropshire, & Buchholtz, 2003). Sometimes, different stakeholders uphold different yet competing preferences towards the firm. For instance, non-family shareholders of family firms are primarily interested in obtaining financial gains, but family members' interests often go beyond obtaining financial gains to include socio-emotional wealth or emotional and social benefits accruing from controlling the firm (Gomez-Mejia, Cruz, Berrone, & Castro, 2011). Thus, the challenge that large family firms may face in designing corporate governance is how to balance or synthesize these somewhat competing demands from multiple stakeholders. It awaits the future research how firms recognize and address differing preferences of multiple stakeholders.

Blair (1995: 274) defines stakeholders as all the "participants who have substantial firm-specific investments at risk" and recognizes employees as an important stakeholder. She states that "fewer and fewer publicly traded corporations actually look like the factory model. Much of the wealth-generating capacity of most modern firms is based on the skills and

knowledge of the employees and the ability of the organization as a whole to put those skills to work for customers and clients" (pp. 233-234). As the economy becomes more knowledge-based, recruiting and retaining human talent presents a key challenge to the firm, generating a lot of academic research in the area of human resource management. However, addressing the issues surrounding firm-specific human capital may require to go beyond a functional view of human resource management to adopt the corporate governance perspective. How can the firm motivate employees to make a high level of firm-specific human capital? How should property rights be allocated between capital providers and employees? How should the firm-specific human capital be protected ex post? Future research on these questions may generate new insights about the design of corporate governance of the firm where human talent is a more important resource than financial capital.

Third, despite a recent increase of cross-national comparative research such as the cross-national study of internal control disclosures (Hooghiemstra, Hermes, & Emanuels, 2015), there is still a lot to learn from it. In addition, multinational firms provide an excellent setting to address corporate governance issues in the globalized world (Starbuck, 2014; Tihanyi, Graffin, & Geoge, 2014) as shown by Driffield, Mickiewicz, and Temouri's (2014) study of how the strength of institutions influences the division of equity shares between the home country and the foreign affiliates for firms from 16 eastern and central European. Given their presence in multiple countries, multinational firms interact with local customers, states, and stakeholder groups that may have different preferences and expectation across countries. They may have incentives to change governance mechanisms in some countries; however, such changes may create conflicts with governance mechanisms of the parent company or other national subsidiaries. Alternatively, because of their economic power, multinational

firms may influence the preferences and perceptions of local customers, shareholders, and stakeholder groups, thereby transplanting their own notion of corporate governance in foreign countries. Future research on corporate governance issues of multinational firms would enhance our knowledge of how the national corporate governance systems interact with the firm-level corporate governance and certainly move beyond agency debates into more institutional and resource oriented concerns.

Fourth, agency theory and corporate governance research in general have not paid much attention to understanding how corporate governance affects the process of value creation. While addressing the "ways in which suppliers of finance to corporations assure themselves of getting a return on their investment," theorizing in the tradition of agency theory has focused on how to ensure returning a fair share of profits to shareholders (Shleifer & Vishny, 1997: 737). However, generation of value and distribution of the generated value fall into inter-related yet distinctive domains. For instance, Kim and Ozdemir (2014) classify fiduciary roles of boards into "wealth protectors" and "wealth creators" and show how national institutional environments drive the choice of these two different roles of boards. The corporate governance designed with an emphasis on protecting shareholders' rights as residual claimants may not promote risk-taking and firm-specific investments by other shareholders, thereby failing to realize the value-creating potential of firm resources. Realizing value-creating potentials in the first place might be as important as fairly distributing subsequent profits to involved stakeholders. However, agency theory alone might be quite limited in addressing how the firm generates value, knowledge, and sources of competitive advantage because it neglects the importance of firm-specific investments made by stakeholders other than shareholders (Garcia-Castro & Aguilera, 2014; Lazonick, 2003).

Entrepreneurial firms might present appropriate settings to explore the link between corporate governance and value creation; combining agency theory with stakeholder theory, resource-based view and dynamic capability theory might offer fruitful lens.

Fifth, the governance of banks, and financial institutions more generally, should also be analyzed within a framework that goes beyond the "traditional" principal-agent conflict. In particular, the "specialness" of banks, as analytically discussed by John, De Masi and Paci (2016), Zalewska (2016), and Srivastav and Hagendorff (2016) in this special issue, requires an analytical framework that does not focus exclusively on protecting the interests of equity claimants but also expands to incorporating non-shareholder constituencies' interests such as depositors and the society-at-large. In the presence of potentially conflicting interests among heterogeneous constituents, the effectiveness of traditional governance mechanisms is also limited for the case of banks (see Leventis, Dimitropoulos, & Owusu-Ansah, 2013; Grove, Patelli, Victoravich, & Xu, 2011). More research is therefore warranted on the corporate governance of banks and, more specifically, on determining what constitutes good governance for financial entities. Of particular importance is to address the question of whether (and to what extent) bank governance contributed to the 2007-2009 financial crisis. One view is that the poor governance of banks was among the major causes of the crisis (see Bebchuk & Spamann, 2010; Kirkpatrick, 2009). This view is challenged, however, by recent research showing that banks with more independent boards, shareholder-friendly boards and with CEOs whose incentives were better aligned with the interests of shareholders performed worse during the crisis than other banks (see Adams, 2012; Beltratti & Stulz, 2012; Fahlenbrach & Stulz, 2011). A related avenue of research is to examine whether the post-crisis calls of regulators and policy-makers for governance reforms (see European

Commission, 2010; Walker, 2009; Kirkpatrick, 2009) have influenced the quality of bank governance. For example, there is no consensus in the literature on whether human capital resources at a board level (e.g. financial experience and skills) are significant predictors of bank risk-taking and performance. The results of recent research by Minton, Taillard, and Williamson (2014) and Guner, Malmendier and Tate (2008) challenge the view that more financial expertise on banks' boards reduces risk-taking and improves specific corporate policies, such as financing, investment and compensation. Last but not least, there is scope for more research on the complementarity between bank-level governance and regulation. Survey evidence (see Laeven, 2013) and evidence from the market of corporate control (see Hagendorff, Collins, & Keasey, 2010) support the view that governance and regulation should be developed in synchrony. Yet, more systematic research is needed on whether (and to what extent) financial regulation can compensate for weaknesses in the internal governance of banks.

Sixth, more research is warranted on the resource dependence role of corporate directors (see e.g. Hillman, Cannella, & Paetzold, 2000; Hillman & Dalziel, 2003; Haynes & Hillman, 2010). A significant strand of literature in corporate governance focuses on the impact of board capital on corporate outcomes (see e.g. Chen, 2014; De Maere, Jorissen & Uhlaner, 2014; Barroso, Villegas, & Pérez-Calero, 2011; Kroll, Walters, & Wright, 2008). However, the vast majority of these studies either consider the board as a collective unit or restrict their attention to the CEO and the Chair of the board. An interesting avenue for future enquiry is to look beyond the CEO and the Chair while studying how "top management teams" (TMTs) affect corporate governance and how boards provide resources to organizations. Extant research usually emphasizes the importance of the CEO and board chair

in the governance process yet it fails to systematically account for their interaction with the TMT. This is an important oversight because the role of several members of the so called "C-suite" has been extended to make more strategic contributions. The role of the CFO, for example, has evolved from a financial controller to a key strategic partner to the CEO. The role of the Chief Risk Officer (CRO) has also grown over the years with most CROs currently working closely with their CEO, Chief Operations Office and other top executives while shaping key strategic decisions that involve risk (e.g., M&As). In addition to their influence on corporate strategy, a promising area of future research is to investigate whether the incentives, actions, behaviors, skills and other personal attributes of CFOs, CROs, COOs and other members of the TMT promote effective corporate governance.

Finally, there is need for methodological advances in corporate governance research. For example, there is scope for more research using a mixed-methods approach. Most studies in corporate governance have so far focused on archival data for their empirical analyses. Despite their obvious attractiveness, data that are in the public domain are not well suited for analyzing governance attributes such as board processes, dynamics and culture. Future studies combining archival and data from surveys and interviews with key players (e.g. board members) will help to better understand the inner workings of a boardroom and draw inferences about how board members make their decisions.[2] We also expect to see future research using more appropriate methods for dealing with the endogenous nature of the relationship between corporate governance and firm outcomes (e.g., takeover outcomes, dividend policy, capital structure, firm valuation). Endogeneity arises when firm and/or management-specific characteristics that affect an outcome variable are also correlated with corporate governance measures, leading to a spurious correlation between the former and the

latter. There are several econometric methods aimed at addressing endogeneity concerns including instrumental variables, difference-in-differences estimators, matching methods and higher order moments estimators (see Roberts & Whited, 2012 for a detailed discussion). A more extensive use of these methods in corporate governance research would enable a better understanding of the impact of corporate governance on firm outcomes.

To conclude, there is no doubt that the field of corporate governance has been prolific but there is much more to learn and to draw on to better understand how the rights and responsibilities of different stakeholders are distributed within and outside the firm.

NOTES

[1] The institutional logics research claims that there exists a dominant logic defined as "socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which [organizations] produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality"

[2] Recent studies that opted for a mixed-methods approach include Binacci et al. (2016), McNulty, Florackis and Ormrod (2013) and Du, Deloof, and Jorissen (2011).

REFERENCES

Adams, RB. 2012. Governance and the financial crisis. ***International Review of Finance***, 12: 7–38.

Adams, R. B., Licht, A. N., & Sagiv, L. 2011. Shareholders and stakeholders: How do directors decide? ***Strategic Management Journal*****,** *32*(12): 1331-1355.

Aguilera, R. V. & Jackson, G. 2003. The cross-national diversity of corporate governance: Dimensions and determinants. ***Academy of Management Review***, 28(3): 447-65.

Aguilera, R. V. & Jackson, G. 2010. Comparative and international corporate governance. ***Academy of Management Annals***, 4 (1): 485- 556.

Aguilera, R. V., Desender, K., Bednar, M. K., & Lee, J. H. 2015. Connecting the dots: Bringing external corporate governance into the corporate governance puzzle. ***Academy of Management Annals***, 9(1): 483-573.

Aktas, N., Croci, E., & Simsir, S.A. 2016. Corporate governance and takeover outcomes, ***Corporate Governance: An International Review***, this issue.

Barroso, C., Villegas, M. M., & Pérez-Calero, L. 2011. Board influence on a firm's internationalization. ***Corporate Governance: An International Review***, 19: 351–367.

Beltratti, A., & Stulz, R. M. 2012. The credit crisis around the globe: Why did some banks perform better? ***Journal of Financial Economics***, 105(1): 1–17.

Bebchuk, L. & Spamann, H. 2010. Regulating banker's pay. **Georgetown Law Review** 98, 247–287.

Berle, A.A., Jr., & Means, G.C. 1932. ***The modern corporation and private property***. New York: Commerce Clearing House.

Binacci, M., Peruffo, E., Oriani, R. & Minichilli, A. 2016. Are all non-family managers (NFMs) equal? The impact of NFM characteristics and diversity on family firm performance. ***Corporate Governance: An International Review***, forthcoming.

Blair, M.M. 1995. ***Ownership and control***. Washington, D.C.: The Brookings Institution.

Brav, A., Jiang, W., Partnoy, F., & Thomas, R. 2008. Hedge fund activism, corporate governance, and firm performance. ***Journal of Finance***, 63(4): 1729-1775.

Buchanan, J., Chai, D. H., & Deakin, S. 2014. Agency Theory in Practice: a Qualitative Study of Hedge Fund Activism in Japan. ***Corporate Governance: An International Review***, 22(4): 296-311.

Bundy, J., Shropshire, C., & Buchholtz, A. K. 2013. Strategic cognition and issue salience: Toward an explanation of firm responsiveness to stakeholder concerns. ***Academy of Management Review***, 38(3): 352-76.

Chen, H-L. 2014. Board capital, CEO power and R&D investment in electronics firms. ***Corporate Governance: An International Review,*** 22(5): 422–436.

Chen, C., Young, D., & Zhuang, Z. 2013. Externalities of Mandatory IFRS Adoption: Evidence from Cross-Border Spillover Effects of Financial Information on Investment Efficiency. ***Accounting Review***, 88(3): 881-914.

Chen, Y., Liu, W., & Lin J K. 2015. Cumulative Voting: Investor Protection or Antitakeover? Evidence from Family Firms in China. ***Corporate Governance: An International Review***, 23 (3): 234–248.

Chua, C. T., Eun, C. S., & Lai, S. 2007. Corporate valuation around the world: The effects of governance, growth, and openness. ***Journal of Banking & Finance***, 31(1): 35-56.

Colpan, A., Hikino, T., & Lincoln, J. 2010. ***Oxford handbook on business groups***. New York: Oxford University Press.

Colli, A., & Colpan, A. M. 2016. Business groups and corporate governance: Review, synthesis, and extension. ***Corporate Governance: An International Review***, this issue.

Connelly, B.L., Tihanyi, L., Certo, S.T., & Hitt, M.A. 2010. Marching to the beat of different drummers: The influence of institutional owners on competitive actions. ***Academy of Management Journal***, *53*(4): 723-742.

Cuomo, F., Mallin, Ch., & Zattoni, A. 2016. Corporate Governance Codes: A Review and Research Agenda. ***Corporate Governance: An International Review***, this issue.

Dalton, D. R., Daily, C. M., Certo, S. T., & Roengpitya, R. 2003. Meta-analyses of financial performance and equity: Fusion or confusion? ***Academy of Management Journal***, 46(1): 13-26.

Davis, J. H., Schoorman, F. D., & Donaldson, L. 1997. Toward a stewardship theory of management. ***Academy of Management Review***, 22(1): 20-47.

De Maere, J. Jorissen, A. & Uhlaner, L.M. 2014. Board capital and the downward spiral: Antecedents of bankruptcy in a sample of unlisted firms. ***Corporate Governance: An International Review,*** 22(5): 387–407.

Desender, K.A., Aguilera, R.V., Crespi, R., & García-cestona, M. 2013. When does ownership matter? Board characteristics and behavior. ***Strategic Management Journal***, *34*(7): 823-842.

Dharwadkar, R., George, G., & Brandes, P. 2000. Privatization in emerging economies: an agency theory perspective. ***Academy of Management Review***, 25: 650-669.

Dorff, M.B. 2014. ***Indispensable and other myths***. Berkeley: University of California Press.

Driffield, N., Mickiewicz, T., & Temouri, Y. 2014. Institutions and Equity Structure of Foreign Affiliates. ***Corporate Governance: An International Review***, 22(3): 216-229.

Du, Y., Deloof, M. & Jorissen, A. 2011. Active boards of directors in foreign subsidiaries. ***Corporate Governance: An International Review***, 19(2): 153-168.

Durnev, A., & Kim, E. 2005. To steal or not to steal: Firm attributes, legal environment, and valuation. ***Journal of Finance***, 60(3), 1461–1493.

Enikolopov, R., Petrova, M., & Stepanov, S. 2014. Firm value in crisis: Effects of firm-level transparency and country-level institutions. ***Journal of Banking & Finance***, 46: 72-84.

Essen, M., Engelen, P. J., & Carney, M. 2013. Does “good” corporate governance help in a crisis? The impact of country-and firm-level governance mechanisms in the European financial crisis. ***Corporate Governance: An International Review***, 21(3): 201-224.

European Commission. 2010. ***Corporate Governance in Financial Institutions and Remuneration Policies***. Green paper available at: http://ec.europa.eu/internal_market

Fahlenbrach, R. & Stulz, R. 2011. Bank CEO Incentives and the credit crisis, ***Journal of Financial Economics*****,** 99: 11–26.

Fama, E. F., & Jensen, M. C. 1983. Agency problems and residual claims. ***Journal of Law & Economics***, 26(2): 327-349.

Ferreira, M. A., & Matos, P. 2008. The colors of investors’ money: The role of institutional investors around the world. ***Journal of Financial Economics***, 88(3): 499-533.

Filatotchev, I. & Boyd, B. K. 2009. Taking stock of corporate governance research while looking to the future. ***Corporate Governance: An International Review***, 17(3): 257-65.

Gabaldon, P., de Anca, C., Mateos de Cabo, R., & Gimeno, R. 2016. Searching for Women on Boards: An Analysis from the Supply and Demand Perspective. ***Corporate Governance: An International Review***, this issue.

García-Castro, R., Aguilera, R. V., & Ariño, M. A. 2013. Bundles of firm corporate governance practices: A fuzzy set analysis. ***Corporate Governance: An International Review***, 21(4): 390-407.

García-Castro, R., & Aguilera, R. V. 2014. Incremental Value Creation and Appropriation in a World with Multiple Stakeholders, ***Strategic Management Journal***, 36 (1): 137-147.

Gomez-Mejia, L. R., Cruz, C., Berrone, P., & De Castro, J. 2011. The bind that ties: Socioemotional wealth preservation in family firms. ***Academy of Management Annals*****,** 5(1): 653-707.

Grove, H., Patelli, L., Victoravich, L., & Xu, P. 2011. Corporate governance and performance in the wake of the financial crisis: Evidence from US commercial banks. ***Corporate Governance: An International Review***, 19: 418–436.

Grosman, A., Okhmatovskiy, I., & Wright, M. 2016. State control and corporate governance in transition economies: 25 Years on from 1989. ***Corporate Governance: An International Review***, this issue.

Guner, A. B., Malmendier, U., & Tate, G. 2008. Financial expertise of directors. ***Journal of Financial Economics***, 88: 323–354.

Hagendorff, J., Collins, M., & Keasey, K. 2010. Board monitoring, regulation, and performance in the banking industry: Evidence from the market for corporate control. ***Corporate Governance: An International Review***, 18: 381–395.

Hall, P.A., & Soskice, D. (Eds.). 2002. ***Varieties of capitalism***. Oxford: Oxford University Press.

Hautz, J., Mayer, M.C., & Stadler, C. 2013. Ownership identity and concentration: a study of their joint impact on corporate diversification. ***British Journal of Management***, *24*(1):102-126.

Haynes, K. T. & Hillman, A. 2010. The effect of board capital and CEO power on strategic change. ***Strategic Management Journal***, 31: 1145–1163.

Hillman, A. J., & Dalziel, T. 2003. Boards of directors and firm performance: Integrating agency and resource dependence perspectives. ***Academy of Management Review***, 28(3): 383-396.

Hillman, A. J., Cannella, A. A., & Paetzold, R. L. 2000. The resource dependence role of corporate directors: Strategic adaptation of board composition in response to environmental change. **Journal of Management Studies**, 37(2): 235-256.

Hooghiemstra, R., Hermes, N., & Emanuels, J. 2015. National culture and internal control disclosures: A Cross-country analysis. ***Corporate Governance: An International Review***, 23(4): 357-377.

Hoskisson, R. E., Hitt, M. A., Johnson, R. A., & Grossman, W. 2002. Conflicting voices: The effects of institutional ownership heterogeneity and internal governance on corporate innovation strategies. ***Academy of Management Journal***, 45(4): 697-716.

Huyghebaert, N., & Wang, L. 2012. Expropriation of Minority Investors in Chinese Listed Firms: The Role of Internal and External Corporate Governance Mechanisms. ***Corporate Governance: An International Review*****,** 20 (3): 308–332.

Jain, T., & Jamali, D. 2016. Looking inside the black-box: The effect of corporate governance on corporate social responsibility. ***Corporate Governance: An International Review***, this issue.

John, K. De Masi, S., & Paci, A. 2016. Corporate governance in banks***, Corporate Governance: An International Review***, this issue.

Kirkpatrick, G. 2009. ***The corporate governance lessons from the financial crisis***. Financial Markets Trends, 2009/1, OECD.

Kroll, M., Walters, B. A., & Le, S. A. 2007. The impact of board composition and top management team ownership structure on post-IPO performance in young entrepreneurial firms. ***Academy of Management Journal***, 50: 1198–1216.

Laeven, L. 2013. Corporate Governance: What's special about banks? ***Annual Review of Financial Economics,*** 5: 63-92.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. 2000. Investor protection and corporate governance. ***Journal of Financial Economics***, 58(1): 3-27.

La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. 2006. What works in securities laws? ***Journal of Finance***, 61(1): 1-32.

Lattemann, Ch., Fetscherin, M., Alon, I., Li, S., & Schneider, A-M. 2009. CSR Communication Intensity in Chinese and Indian Multinational Companies. ***Corporate Governance: An International Review***, 17 (4): 426-442.

Lazonick, W. 2003. The theory of the market economy and the social foundations of innovative enterprise. ***Economic and Industrial Democracy***, 24(1): 9-44.

Lensink, R., Meesters, A., & Naaborg, I. 2008. Bank efficiency and foreign ownership: Do good institutions matter? ***Journal of Banking & Finance***, 32(5): 834-844.

Leventis, S., Dimitropoulos, P., & Owusu-Ansah, S. 2013. Corporate governance and accounting conservatism: Evidence from the banking industry. ***Corporate Governance: An International Review,*** 21: 264–286.

Li, S. 2013. China's (painful) transition from relation-based to rule-based governance: When and how, not if and why. ***Corporate Governance: An International Review***, 21 (6): 567-576.

Liu, M., & Magnan, M. 2011. Self-dealing regulations, ownership wedge, and corporate valuation: International evidence: Self-dealing regulations and corporate valuation. ***Corporate Governance: An International Review***, 19(2), 99–115.

McNulty, T., Florackis, C. & Ormrod, P. 2013. Boards of directors and financial risk during the credit crisis. ***Corporate Governance: An International Review,*** 21: 58-78.

McNulty, T. & Nordberg, D. 2016. Ownership, Activism and Engagement: Institutional Investors as Active Owners. ***Corporate Governance: An International Review***, this issue.

Minton, B.A., Taillard, J.P.A. & Williamson, R. 2014. Financial expertise of the board, risk taking, and performance: Evidence from bank holding companies. ***Journal of Financial and Quantitative Analysis***. 49: 351–380.

Nagar, N. & Sen, K. 2015. How does regulation affect the relation between family control and reported cash flows? Comparative evidence from India and the United States. ***Corporate Governance: An International Review***, forthcoming.

Peng, M. W., & Jiang, Y. 2010. Institutions behind family ownership and control in large firms. ***Journal of Management Studies***, 47(2): 253-273.

Rees, W., & Rodionova, T. 2015. The influence of family ownership on corporate social responsibility: An international analysis of Publicly Listed Companies. ***Corporate Governance: An International Review***, 23(3): 184-202.

Roberts, M.R. & Whited, T. 2013. Endogeneity in empirical corporate finance, ***Handbook of the Economics of Finance***, Chapter 7, Volume 2, Part A, Pages 1-798.

Roberts, J., McNulty, T., & Stiles, P. 2005. Beyond agency conceptions of the work of the non-executive director: creating accountability in the boardroom. ***British Journal of Management***, 16: S5-S26.

Schiehll, E., & Martins, H.C. 2016. Cross-national governance research: A systematic review and assessment. ***Corporate Governance: An International Review***, this issue.

Schiehll, E., Ahmadjian, C., & Filatotchev, I. 2014. National governance bundles perspective: Understanding the diversity of corporate governance practices at the firm and country levels. ***Corporate Governance: An International Review***, 22(3): 179-84.

Shleifer, A. & Vishny, R. W. 1997. A survey of corporate governance. ***Journal of Finance***, 52(2): 737-83.

Singh, D. A., & Gaur, A. S. 2009. Business group affiliation, firm governance, and firm performance: Evidence from China and India. ***Corporate Governance: An International Review***, 17 (4): 411–425.

Srivastav, A., & Hagendorff, J. 2016. Corporate governance and bank risk-taking. ***Corporate Governance: An International Review***, this issue.

Starbuck, W. H. 2014. Why corporate governance deserves serious and creative thought. *The* ***Academy of Management Perspectives***, 28(1): 15-21.

Stathopoulos, K., & Voulgaris, G. 2016. The importance of shareholder activism: The case of Say-on-Pay, ***Corporate Governance: An International Review***, this issue.

Stout, L. 2012. ***The shareholder value myth***. San Francisco: Berret-Koehler.

Tihanyi, L., Graffin, S., & George, G. 2014. Rethinking governance in management research. ***Academy of Management Journal***, 57(6): 1535-43.

Whitley, R. 1999. ***Divergent capitalisms***. Oxford: Oxford University Press.

Young, M. N., Peng, M. W., Ahlstrom, D., Bruton, G. D., & Jiang, Y. 2008. Corporate governance in emerging economies: A review of the principal–principal perspective. ***Journal of Management Studies***, 45(1): 196-220.

Zalewska, A. 2016. A new look at regulating bankers' remuneration. ***Corporate Governance: An International Review***, this issue.

Zattoni, A. 2011. Who should control a corporation? Toward a contingency stakeholder model for allocating ownership rights. ***Journal of Business Ethics*, **103(2): 255-274.

Zeitoun, H., & Pamini, P. 2015. Corporate ownership structure and top executives' prosocial preferences: The role of relational and external blockholders. ***Corporate Governance: An International Review***, 23(6): 489-503.

Zhang, M., Gao, S., Guan, X., & Jiang, F. 2014. Controlling Shareholder-Manager Collusion and Tunneling: Evidence from China. ***Corporate Governance: An International Review,*** 22 (6): 440–459.

Zhang, Q., Chen, L., & Feng, T. 2014. Mediation or moderation? The role of R&D investment in the relationship between corporate governance and firm performance: Empirical evidence from the Chinese IT industry. ***Corporate Governance: An International Review***, 22 (6): 501–517.

Zheng, Y. 2010. Heterogeneous institutional investors and CEO compensation. ***Review of Quantitative Finance and Accounting***, *35*(1): 21-46.

Ruth V. Aguilera is a Full Professor at the D'Amore-McKim School of Business at Northeastern University. She received her PhD in Sociology at Harvard University. Ruth's research interests lie at the intersection of strategic organization and global strategy, specializing in international corporate governance, corporate social responsibility, and firm internationalization. Her research has been published at AMJ, AMR, GSJ, JIBS, Org Science, and SMJ among other journals.

Chris Florackis is a Professor of Finance at the Management School of the University of Liverpool. He holds a PhD in Economics from the University of York (UK). His research interests range from corporate finance and governance to various aspects of asset pricing and risk management. He currently serves as an Associate Editor for the journals "Corporate Governance: An International Review" and "Journal of Multinational Financial Management". His research work has been published in a series of international academic journals, such as the Journal of Empirical Finance, Journal of International Money and Finance and the Journal of Banking and Finance.

Hicheon Kim is currently a Professor of Strategy and Organization and a former Associate Dean at the Korea University Business School (KUBS). He received his Ph.D. at Texas A&M University. Prior to joining the KUBS, he was a faculty member at George Washington University in the United States and at Hanyang University in Korea. His research interests include business groups, corporate strategy and governance, and corporate innovation. His work has appeared in the leading journals such as Academy of Management Journal, Strategic Management Journal, Organization Science, and Journal of International Business Studies.