EDITORIAL: Challenging issues in risk governance and control

Dear readers!

The leitmotif of this fourth issue of the journal seems to revolve around the role of finance in the current context of climate change.

Concerns about the disastrous effects of climate change affect many areas. The rapidity of climate change requires urgent action from governments, industries and businesses to build more resilient communities and reduce the impact of disasters. The most recent example is the disaster that is affecting Australia, with fires fueled by record temperatures and entrenched drought conditions. Coordinated national action is critical for managing the impacts of this phenomenon.

Although the most immediate financial impact of catastrophic events regards the insurance sector, the whole world of finance is affected by these phenomena.

In this context, areas of growing interest for scholars at the international level are sustainable finance, corporate social responsibility and insurance.

Vittorio Boscia, Valeria Stefanelli, Benedetta Coluccia, and Federica De Leo examine green bonds providing the regulators’ perspective about these tools. These are fixed-income financial instruments where the proceeds are exclusively utilized for financing climate change mitigation or adaptation related projects or programs. The Bank of America was one of the first corporates to have issued green bonds. Also, China represents a case of the country that has successfully utilised green bonds. In China, the largest share, in terms of use of proceeds, is renewable energy, followed by clean transportation. One of the biggest opportunities for green bonds has been represented by Asia’s renewable energy sector, accurately described by Ng and Tao (2016). The authors find that the current voluntary regulatory system is still far from ensuring an adequate level of transparency to investors. However, the report published by the EU Commission, containing the proposal to introduce common criteria for the issuance of green bonds in Europe, seems to promote greater protection for the underwriters, leaving more room for the development of green investments.

Corporate social responsibility is analyzed by Md. Jahidur Rahman and Yu Fang. Historically China does not have a good reputation for corporate social responsibility (CSR) practices. Worker suicides, faulty consumer products, toxic emissions in the countryside, overworked and underpaid employees have all been major topics in the popular press. To counter these phenomena China’s government and industrial organizations have attempted to change and improve better corporate practices. So, relevant changes are being adopted in the direction of assuming greater CSR. The authors investigate the relationship between corporate social responsibility and firm performance in China, using a sample of a-share listed firms from Shenzhen and Shanghai Stock Exchange for the period 2011 to 2017. They find that corporate social responsibility has a significantly positive effect on firm performance in China. Their results suggest that Chinese companies having better financial performance undertake more CSR reporting. Obviously, the authors contributed to the previous research in corporate social responsibility by Naz (2018), Cranmer (2017), Gennari (2016), Kühn, Stiglbauer, and Heel (2014), Kostyuk, Kostyuk, Mozghovyi, and Kravchenko (2013), Cuong (2011).

Enrico Maria Cervellati, Francesco Corea, and Paolo Zanghieri analyze the effect of behavioural biases on entrepreneurs’ decisions to insure their firms against different kinds of corporate risks, environmental risks included. They use a large sample of 2,295 Italian small and medium enterprises (SMEs), finding that they under-insure themselves. They find that entrepreneurs not only underinsure their firms but also themselves, thus exposing themselves, their firms and their families to high idiosyncratic risk. The suboptimal decisions are affected by behavioural biases such as overconfidence, over-optimism, risk misperceptions, and stubbornness, even though in a not straightforward manner. The above mentioned issues refer to the previous research by Chen,
Simon, Kim, and Poploskie (2015), Chan, Pitt, and Mills (2011), Forbes (2005), Mitchell et al. (2004), Busenitz and Barney (1997).

China has been also investigated by Guan-Chih Chen, Shuling Tsao, Ren-Her Hsieh, and Pan Hu. They explore the impact of risk management on the financial performance of listed banks in China, comparing state-owned banks and non-state-owned banks, by establishing multiple linear regression analysis models. Their study provides useful suggestions for regulators and substantially contributes to the papers by Cerrone (2019), Belhaj and Mateus (2016), Giani (2008).

All studies of this fourth issue highlight the fundamental role played by national governments and public institutions. However, this role has to deal with the significant loss of confidence resulting from the financial crisis, as results from the study conducted by Christos Kallandranis, who added a scholarly value to the previous research by Varmaz, Fieberg, and Prokop (2015), Mihai Yiannaki (2011).

Lastly, ETFs – performance, tracking errors and their determinants have been analyzed by George Tsalikis and Simeon Papadopoulos, through the comparison between Europe and the USA.

We hope that the readers of this issue of the journal will find many interesting ideas introduced by the authors and use it in their further research as well.

Stefania Sylos Labini, Professor, Department of Economics, University of Foggia, Italy
Editor of the Journal Risk Governance and Control: Financial Markets & Institutions

REFERENCES

1. Belhaj, S., & Mateus, C. (2016). Corporate governance impact on bank performance evidence from Europe. Corporate Ownership & Control, 1(4-4), 583-597. http://doi.org/10.22495/cocv13i4c4p8
2. Busenitz, L. W., & Barney, J. B. (1997). Differences between entrepreneurs and managers in large organizations: Biases and heuristics in strategic decision-making. Journal of Business Venturing, 12(1), 9-30. https://doi.org/10.1016/S0883-9026(96)00003-1
3. Cerrone, R. (2019). Risk management as increased corporate governance requirement in Italian banks and insurance companies. Corporate Board: Role, Duties and Composition, 15(3), 58-69. https://doi.org/10.22495/cb15i3art5
4. Chan, A., Pitt, L., & Mills, A. (2011). How readable are environmental policy statements? An exploratory study within the IT industry. Corporate Ownership & Control, 8(3-2), 258-267. http://doi.org/10.22495/cocv8i3c2p2
5. Chen, T., Simon, M., Kim, J. & Poploskie, B. (2015). Out of the building, into the fire: An analysis of cognitive biases during entrepreneurial interviews. New England Journal of Entrepreneurship, 18(1), 59-70. https://doi.org/10.1108/NEJE-18-01-2015-B004
6. Cranmer, L. (2017). Corporate responsibility and the idea of the firm. Corporate Governance and Organizational Behavior Review, 1(1), 13-24. http://doi.org/10.22495/cgobr_v1_i1_p2
7. Cuong, N. H. (2011). Sustainability and corporate social responsibility from business ethics perspective. Corporate Ownership & Control, 9(1), 115-121. http://doi.org/10.22495/cocv9i1art7
8. Forbes, D. P. (2005). Are some entrepreneurs more overconfident than others? Journal of Business Venturing, 20(5), 623-640. https://doi.org/10.1016/j.jbusvent.2004.05.001
9. Gennari, F. (2016). Women on boards and corporate social responsibility. Corporate Board: Role, Duties and Composition, 12(1-1), 101-108. http://doi.org/10.22495/cb121i1art3
10. Giani, L. (2008). Ownership and control of Italian banks: A short inquiry into the roots of the current context. Corporate Ownership & Control, 6(1), 87-98. http://doi.org/10.22495/cocv6i1p9
11. Kostyuk, A., Kostyuk, O., Mozghovyi, Y., & Kravchenko, Y. (2013). Corporate social responsibility index for Ukrainian banks: The essentials for implementation. Corporate Ownership & Control, 10(4-4), 434-445. http://doi.org/10.22495/cocv10i4c4art6
12. Kühn, A.-L., Stiglbauer, M., & Heel, J. (2014). Does mandatory CSR reporting lead to higher CSR transparency? The case of France. Corporate Ownership & Control, 11(2), 29-45. http://doi.org/10.22495/cocv11i2p3
13. Mihai Yiannaki, S. (2011). Bank bailouts: Lessons to learn when patience is a virtue. EuroMed Journal of Business, 6(2), 192-205. https://doi.org/10.1108/14502191111151269
14. Mitchell, R. K., Busenitz, L., Lant, T., McDougall, P. P., Morse, E. A., & Smith, J. B. (2004). The distinctive and inclusive domain of entrepreneurial cognition research. Entrepreneurship Theory and Practice, 28(6), 505–518. https://doi.org/10.1111/j.1540-6520.2004.00061.x
15. Naz, R. (2018). Efficacy of corporate social responsibility in corporate governance structures of family owned business groups in India. Corporate Governance and Organizational Behavior Review, 2(1), 52-68. http://doi.org/10.22495/cgobr_v2_i1_p5

16. Ng, T. H., & Tao, J. Y. (2016). Bond financing for renewable energy in Asia. Energy Policy, 95, 509-517, http://dx.doi.org/10.1016/j.enpol.2016.03.015

17. Varmaz, A., Fieberg, C., & Prokop, J. (2015). The value relevance of “too-big-to-fail” guarantees: Evidence from the 2008-2009 banking crisis. Journal of Risk Finance, 16(5), 498-518. https://doi.org/10.1108/JRF-06-2015-0056