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Editorial

Corporate Finance, Governance, and Social Responsibility

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Corporate finance is a branch of finance that focuses on how companies handle their cash flow, raise capital, make investments, and implement accounting systems. It covers crucial topics, including capital planning, capital structure, and working capital administration. Every corporate financial action has financial consequences, as they involve the allocation of money in a certain manner (Damodaran 2014). Corporate finance's primary responsibility is to make sound business decisions that increase shareholder value, while reducing risks and maximizing returns. A corporation's ability to motivate and engage all of its managers and staff in generating wealth will define its level of excellence (Brealey et al. 2011). In line with stakeholder theory (Freeman 1984), managers should consider the demands of all involved parties in a company, not only stockholders.

The degree to which stock ownership and corporate decision making are divided within corporations differs widely. Small, closely held businesses tend to have highly concentrated equity ownership and control, while large, publicly listed businesses have almost entirely separate equity ownership and control (Badertscher et al. 2013). Directors can make regular financial decisions due to the division of ownership and control, but stockholders are not entitled to assume executive roles. As such, an agency relationship, or the connection between shareholders and management, comes to exist when the principal hires the agent to represent his or her interests (Ross et al. 2013). Jensen and Meckling (1976) emphasized the agency costs that occur in the form of welfare losses when managers act against the shareholders' interests.

The theoretical foundation of corporate governance is agency theory (Vernimmen et al. 2005). The institutional framework referred to as corporate governance oversees the distribution and use of power within corporations (Licht 2013). It generally refers to the methods and procedures utilized to ensure sufficient morality, integrity, and transparency in the administration of organizational activities (Turner 2009). Crowther and Seifi (2011) view corporate governance as a symbiotic commitment made by all the constituent components (or stakeholders), including the government, the public, specialists, service providers, and the financial industry. The main goal of corporate governance is to improve business performance by giving managers incentives to improve their operational efficiency, return on assets, and long-term firm growth, while deterring executives from abusing their power over company funds (Guluma 2021). Shareholders must trust senior management to act for the mutual benefit of the business if corporate governance is to be effective. This collective commitment lowers the agency premium, which might reduce the company's cost of capital (Rose 2016). Internal governance (boards, shareholder activism, and executive incentives) aims to resolve disagreements between executives and various shareholder groups, whilst external governance (entry modes, control over a subsidiary, and network governance) addresses the potentially opportunistic behavior of partners outside an organization (Filatotchev and Nakajima 2010). Good governance is critical for financial institutions, notably those in the banking sector, to safeguard the financial system's stability and prevent a credit crisis (Komath et al. 2023). Corporate collapse, whether caused by financial fraud or excessive reward packages, is the result of ineffective corporate governance (Monks and Minow 2011).

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Deteriorating environmental conditions and the frequent social scandals of industry leaders have put businesses under growing pressure to integrate social responsibility into their corporate strategies (Schwoy et al. 2023). According to Hopkins (2007), addressing stakeholders ethically and responsibly is the goal of corporate social responsibility (CSR). CSR can be regarded as an extension of business efforts to increase shareholder wealth, while simultaneously meeting social expectations (Harjoto and Jo 2011). Although external CSR focuses on social and environmental initiatives that advance the position of a company with concern to its external stakeholders, internal CSR refers to practices and policies that are directly related to the wellbeing of company employees and the management team (Yoon and Chung 2018). Cavaco and Crifo (2014) found that responsible company policies regarding clients and suppliers (one facet of business conduct) and toward workers (the human resources component) acted as a complement to financial performance, suggesting reciprocal benefits and less disagreement between these aforementioned parties. Despite the high costs of CSR activities, CSR can indirectly increase the value of the firm and lower financial risk, since it stimulates and encourages ethical conduct, which has a positive impact on the reputation of a company (Xue et al. 2023). Furthermore, strengthening engagement through CSR can support society and generate measurable results for the company, including higher sales and superior financial performance (Shahbaz et al. 2020). As stated by signaling theory (Spence 1973), non-financial disclosures given through various channels can lower the disparity in information between a corporation's management and its owners. Patten and Zhao (2014) noted that when retail companies independently report CSR, a beneficial impact on the company's reputation results, because in doing so, the company may become more appealing to investors who prioritize CSR practices. In view of stakeholder theory, ethical corporations perceive CSR initiatives as a lynchpin of strategic planning to fulfill stakeholder demands; however, the principal–agent theory contends that self-interested managers view CSR disclosure as a means to conceal real earnings statements or other unethical behavior (Guo et al. 2022). However, better CSR statements have been suggested as a way for companies to prevent economic turmoil by increasing social confidence in them (Lins et al. 2017).

This book comprises 27 papers published in the Special Issue entitled "Corporate Finance, Governance, and Social Responsibility", which investigated a variety of practical topics related to corporate finance, financial modeling, corporate governance, and corporate social responsibility. Articles related to corporate finance focused on various approaches to equity investments (Bae et al. 2023), the reasons why corporations choose a zero debt policy (Miglo 2020), the drivers of the capital structure (Kedzior et al. 2020), the connection between the firm capital structure and its operating environment (Tsolas 2021), how investor connections affect a company's performance (Mihail et al. 2021), developing a framework to assess and improve performance (Tudose et al. 2021), the effect of working capital management on firm profitability (Anton and Nucu 2021), the association between derivative use and firm performance (Wen et al. 2021), the relationship between various sustainability measures and the risk of a corporation collapsing (Lääts and Lukason 2022), and capital budgeting practices (Mota and Moreira 2023). Regarding financial modeling, stock market volatility was explored during the coronavirus outbreak (Gherghina et al. 2021). Studies in the field of corporate governance have examined developments in corporate governance from a cross-country perspective (Mihail and Dumitrescu 2021), corporate governance compliance (with board) practices and company value (Aluchna and Kuszewski 2020), the impact of board attributes on bankruptcy risk (Maier and Yurtoglu 2022), company performance (Ararat et al. 2021; Mihail and Micu 2021; Mihail et al. 2022) or firm value (Lourenço et al. 2021), the association between employees' stock option plans and firm performance (Ding and Chea 2021), the relationship between corporate governance and the power of major shareholders (Pourmansouri et al. 2022), corporate governance practices and earnings management (Kjærland et al. 2020), and the link between timely accounting information disclosure infringement and corporate governance characteristics (Lukason and Camacho-Miñano 2020). With respect to CSR, the research was oriented toward the aspects of corporate finance that are impacted by CSR (Saeed and Sroufe 2021), the impact of CSR on financial performance (Rossi et al. 2021), the association between CSR and risk management (Bozos et al. 2022; Singh and Hong 2023), and the effect of a mandatory disclosure policy regarding CSR reports on forecasts of analysts' earnings (Tseng and Shih 2022).

The collection of papers included in this Special Issue, as a final thought, will serve to enhance our knowledge of corporate finance, governance, and social responsibility on a worldwide scale, and present compelling future research directions.

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