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Editor's Introduction to the Virtual Special Issue: Boards of Directors and Adaptive Corporate Governance

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Adapting to the particularities of time and place is a central goal of economic organization (Simon 1991; Williamson 2000). However, governance codes around the world largely recommend one-size-fits-all structures, many times following an Anglo-Saxon model. While general guidelines can facilitate organization, in a competitive market firms would evolve in a Darwinian fashion to thrive using the best adapted corporate governance. The specific knowledge on how a firm can adjust to the environment is generally endogenous, while governance recommendations are mostly exogenous and rely on general knowledge. This leads to tensions in both practice and research. An optimal internal governance structure tends to be locally adapted to the external governance environment and the real and idiosyncratic decisions faced by firms (Adams et al. 2010; Aguilera et al. 2015).

Here we shall focus on the tying glue among ownership and management: the board of directors. Present in all corporations, subject to codes of good practice (such as the presence of independent directors with relevant skills) and at the center of attention when things go wrong (see, e.g., the Enron or Parmalat scandals), the board of directors spurred a large number of empirical studies. Indeed, there are economic theory fundamentals that can serve to study the role of boards considering a nexus of contracts (Jensen and Meckling 1976), an organizational hierarchy (Williamson 1975; Tirole 1986) or a team production view of the corporation (Blair and Stout 1999). But boards and the dynamics of their operations are molded by the richness in the variety of empirical contexts.

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Accordingly, the is no "one truth" on the structure and functioning of the board of directors that can be applied to all firms in all environments.

In this virtual special issue, we feature six papers published in *Business Research Quarterly* between 2015 and 2020 that showcase the relevance of adapting boards of directors to the microeconomic features and institutional context of the corporation.

De Andrés et al. (2017) challenge some prevailing views by studying how independent and non-independent directors influence CEO compensation in corporations headquartered in Western Europe. Independent directors are often regarded as gatekeepers of shareholder value, since their decisions are steered by safeguarding their professional reputation. Accordingly, one may expect their presence to curb riskier choices. Yet, this study shows that more independent directors on the board relate to more aggressive CEO pay, with more frequent and larger equity-linked compensation. Conversely, firms that feature a higher proportion of non-independent outsiders on the board tend to follow a more conservative CEO pay, with more moderate direct salary and bonus compensation.

In a related study, Sanchez-Marin et al. (2017) analyze recent advances in say on pay (SOP) mechanisms in Spanish firms. SOP allows usually passive shareholders to go beyond their specialization in risk-taking and intervene in professional decisions such as the suitability of CEO pay. In this paper, dissatisfied shareholders provide low support to SOP, while there is high support in cases of highly compensated CEOs which may indicate either satisfaction with firm results or overcompensation. Interestingly for this virtual issue, independent boards strengthen the alignment between SOP support and CEO compensation.

Directors may differ in other more granular respects. López-Iturriaga et al. (2015) focus on directors who represent institutional investors, the prevalent type of large shareholders. Their results for a panel of listed Spanish non-financial firms show heterogenous effects for board compensation policies. Specifically, pressure-resistant directors (i.e. without business links), as compared with pressure-sensitive directors (i.e. with business links), are associated with a lower fixed total board compensation, but a higher total and more sensitive variable pay-for-performance. Therefore, in line with relying on reputation as safeguard, pressure-resistant directors may be better able to manage risk and engage in more thorough monitoring.

Indeed, outsiders on the board may behave differently depending on their link to the business or institutional environment. As García-Meca and Palacio (2018) document for a panel of Spanish firms, outsiders such as business experts, support specialists, political directors and other community influentials can use specific knowledge or political connections to augment stakeholder perception and thus firm reputation. Perhaps the most eye-catching result of their paper is the inverted U-shaped relationship between business experts on the board and firm reputation. That is, there is an optimal proportion of board members with business expertise that maximizes firm reputation; after this point, there may be a cost of too much reliance on general business knowledge at the expense of firm specific information which insiders could provide.

Contrary to popular expectations, García-Meca and Palacio (2018) do not find a negative relationship between directors with experience as politicians and legitimacy towards stakeholders. But do politically connected boards matter for firm performance? Guerra Pérez et al. (2015) argue that they do. Drawing on a Spanish sample in which about half of the firms feature at least one ex-politician on the board of directors, they show that the presence of large shareholders and family ownership are negatively related to the appointment of ex-politicians on the board. But the presence of such political connections is positively related to firm value, contingent on the type of owners, business group structure and director tenure.

Probing into board politicization in Spanish savings banks (*cajas*), De Andrés et al. (2020) analyze how "hidden" political directors (politicians in disguise) exacerbated the financial crisis effects on the economy. They show that one cannot truly evaluate the board politicization by counting the politicians on the board; instead, one should include those directors who, although not formally representing a public administration (as it was usual in the *cajas*), maintain a direct link with politics (e.g. they held political positions or simply appeared on the lists of a political party). The results using hand-collected data are convincing: politicians in disguise destroy value in the *caja*, while politically motivated financial experts on the board do not benefit *cajas'* performance; two outcomes at odds with the declared social purpose of these by now obsolete institutions.

Overall, the six selected papers offer a glimpse into the role of boards for firm strategic choices and outcomes, ranging from micro-elements such as the structure of

CEO compensation to macro effects such as corporate performance and reputation. Some validate prominent governance models, while others challenge commonly held beliefs. In doing so, they hopefully inspire future research to delve deep into the mechanisms of context-congruent corporate governance choices.

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