

# Governing the firm: Innovation, performance and risk

*Rebecca Levy Orelli\*, Filippo Zanin\*\**

## Abstract

The article analyses the most recent challenges for governing the firms in the present post-pandemic scenario.

In that context, it is central to understand how management control operates, providing insights concerning the intersection between accounting, organisational and social aspects.

A realistic view of the different issues is imperative for governing the firm. All the private, public and non-profit organizations need to gather together innovation, performance and risks with a specific balance to face the next two years of challenges to recover from the pandemic, hopefully, completely.

In the present special issue all the research papers offer insights about at list one out of the different challenges, contributing to the advancement of knowledge related to drivers and barriers for governing the firm.

**Keywords:** Firm Government, Innovation, Performance, Risk.

---

\* University of Bologna, Dipartimento di Scienze aziendali. E-mail: rebecca.orelli@unibo.it.

\*\* University of Udine, Dipartimento di Scienze economiche e statistiche. E-mail: filippo.zanin@uniud.it.

## 1. Governing the firm in a (post) pandemic scenario of challenges

The Coronavirus (COVID-19) is confronting firms with new challenges. According to the OECD, the Coronavirus is currently the most significant threat to the global economy since the financial crisis of 2007/2008. As a result, having emergency and crisis management in place and pre-planning multiple scenarios has become a priority.

It appears essential to find a new normal in this out-of-the-ordinary situation. Decision-makers have to refocus quickly on the firm's continuity with the help of a firm continuity management plan. General and central issues will remain employee safety and the protection of the value chain and liquidity.

Besides the new challenges, there are the traditional ones, as steering a business towards success requires careful and considerate governance at any time (Marchi, 2019). In addition, firms face a range of everyday challenges as they grow and develop – from staying on the right side of company law to knowing the duties and responsibilities of directors.

At the same time there is the necessity to comply with the letter of the law, and to get governance right. A firm that takes on board the key principles of good corporate governance – fairness, accountability, responsibility and transparency – puts itself in a great position to outperform its competitors and attract investment to support further growth.

Managers and leaders need to imagine forward rather than looking to playbooks of the past. The Special Issue analyses how and to what extent management control supports the organisation's response to the COVID-19 pandemic in and after the lockdown period. It is crucial to understand how management control operates in extraordinary social and economic occurrence, understanding the interplay between accounting, organisational and social aspects (Parker, 2020; Sargiacomo, 2015).

Management control systems can support a swift adjustment to new normal situations promoting organisational actions and supporting managers in taking rapid decisions to overcome crisis. Notably, there is still much to learn about the role of accounting and management control during and after pandemic events (Rahaman et al., 2010). Parker (2020) argues that management control mechanisms may enable to minimise specific risks and effects.

A realistic view of the issue is imperative for governing the firm. All the private, public, and non-profit organizations need to gather together innovation, performance and risks with a specific balance to face the next two years of challenges to completely recover from the pandemic.

## 2. The innovation challenge

Innovation is the result of processes that organisations are able to manage, rather than random events that happen to experience at some point in the firm existence (Davila, 2005; Bisbe and Malagueño, 2015). Innovation is a source of competitive advantage (Crossan and Apaydin, 2010), and managers are constantly looking for solutions as drivers of value creation (Bisbe and Malagueño, 2015).

There is a constant increase in published works on innovation over time, and the clear paradigm change (Arcari et al., 2016; Barretta, Anessi Pessina and Pavan, 2018). The use of management control systems and the moods of innovation are complex realities that make studying the combination of the two a complex mission. The Special Issue considers the evolution of management control systems and the perceptions about their role in innovation. This will consider the typologies of techniques in place in organisations to understand the shift from a traditional point of view to a more contemporary one. The point is that it is not possible to disconnect the conclusions and the analysis that research provides without considering the evolution of management control practices, and the overall environmental context that determined these practices.

Within the Special Issue, Catturi discusses the social, economic, and environmental consequences of the COVID-19 pandemic, questioning the extent to which traditional concepts related to the existence of the firm might change. The author considers the effect of technology and smart working innovations to foster an integral development of individuals and organizations.

Berardi, Mook and Rea offer a focus on the recent change in the social accounting rules and guidelines concerning financial reporting, social reporting, and social impact assessment that the Italian government issued during the last four years. The authors investigate the role of integrated social accounting, and the role of the United Nations Sustainable Development Goals (SDGs 2030) and social impact assessment (SIA) within the new framework, developing the case of a food bank.

Paoloni, Cosentino and Iannone tackle the change on relational capital during systemic crises, making use of evidence from the agri-food sector. The paper aims to analyse the organizational, managerial, and relational changes small and medium-sized enterprises face during the COVID-19 pandemic and identify possible strategies for resilience that can be applied at a macro-economic level. The findings show that the pandemic has changed the behaviour and habits of individuals and businesses, that it has dematerialized

the concept of the company, and that it has brought about new roles and responsibilities.

Finally, Gigli, Mariani and Paletta Management investigates the recent accounting reform of the Italian public universities which offers the opportunity to implement a new performance management system. The introduction of the accrual accounting approach can promote accountability and support decision-making from the governance to the operational level. The authors investigate the introduction of an effective performance management system at the University of Bologna at its first implementation of a management accounting system. Findings show organizational and procedural conditions that may affect the introduction of accounting innovation in the context of public universities.

### **3. The performance challenge**

In today's uncertain competitive environment, the performance of an organization depends on a variety of internal and external factors and on the way of controlling them (Costantini et al., 2019). Organizations, whether public or private, are interested in developing effective performance measurement systems (PMS) since it is only through such systems that they can face incoming challenges and deliver value not only to their shareholders but also to other stakeholders.

The use of PMS is frequently recommended for helping organization in the performance of this task because PMS facilitate the alignment between strategy and action and the implementation of value-oriented activities. PMS is a system that combines financial and non-financial measures, indicators and metrics to support strategic decision-making, performance evaluation and the achievement of strategic objectives (Neely, 2005; Hall, 2008; Franco-Santos et al., 2012). This definition assumes that: 1) the role of PMS is providing valuable information to different levels of organisational decision-making; 2) the functioning of PMS requires adequate IT infrastructure for data collection and analysis, business intelligence and data analytics; 3) the effective use of PMS sheds light on the processes of information management, financial and non-financial measurement, data capture and validation.

The Special Issue provides useful insights about the role, the functioning and the use of PMS in different business contexts, demonstrating that the effectiveness of these systems is developed not only in terms of their fea-

tures, but also in terms of the interdependencies among IT infrastructure, organisational procedures, organisational actors, firm's life cycles and the changes of the critical external variables. This processual view of PMS can be proposed as the conceptual key that qualify the PMS research papers of this Special Issue.

Giannetti, Cinquini and Rapaccini research paper takes a practice-based approach to management control, with focus on investment valuation practices in the 4.0 industry, where there is a need to assess both the monetary and non-monetary aspects of introducing these technologies, especially in the context of small and medium-sized enterprises (SMEs). Attention is drawn toward the process of development, dissemination and recombination of an evaluation model and examines how this model has been developed in collaboration with different stakeholders, shedding light on various tangible and intangible aspects under assessment and the computational aspects of the evaluation.

The Bivona research work is related to the design and use of control systems for management support. The research activity is carried out with reference to a particular type of business model, the multi-sided platforms. Starting from the evidence of numerous corporate cases of failure, culminating in the crisis and the failure of the initiative, the author highlight the need to deepen the knowledge of the causal links among strategy, action, performance indicators within this particular business model. From a methodological point of view, the analysis is conducted by adopting an integrated approach, which systematizes the use of the Business Model Canvas tool and the Business Dynamics methodology, applied to the Take it Easy business case.

Cescon and Grassetti tackle the related issue of the use of financial control techniques in startup companies and was developed through a quantitative and qualitative survey extended to a sample of Italian startups and some entrepreneurs and industry experts. The originality of the research represents the strong point of the paper, together with the use of statistical analysis techniques. In sum, the comparison between the descriptive statistics based on the survey results and the interviews' findings confirms the very high importance of cash flow analysis and the low importance of ratio analysis.

Vedovato, Costantini and Ministeri research work aims to develop a model for the control of multi-year contracts by integrating consolidated approaches in the literature and business practice. In particular, the main purpose is to set up a model that allows for the monitoring of the intra-annual contract margin, systematizing the analysis of contract costs and revenues. The empirical analysis is based on the Permasteelisa case study, where the

model was implemented alongside the interventionist approach. The work highlights the technical aspects of calculating the infra-periodal contract margin, the relevance of the IT infrastructures for the acquisition and processing of data and the relevance of the organizational aspects of control.

Sorrentino, Ruggiero and Mussari explore how public administrations develop co-produced public services performance measurement, addressing a relevant turning point in the literature on public services co-production. The paper advances the knowledge on co-production of public services and delivers practical contributions through empirical evidence on how co-production works in practice and how public administrations can measure the co-production results.

Deidda Gagliardo, Papi, Gobbo and Ievoli address the performance issue in the Italian ministries, considering both quality and coherence of performance plans and reports. The paper analyzes the reporting quality of eight Ministries performance reports issued in 2019. The main results show a high level of quality related to the documents formal aspects and a low level of quality related to their content. Also, the level of coherence remains unsatisfactory due to several issues with the report, leaving room for further improvements.

Finally, Francioli and Quagli work embraces an accounting history research line and analyses in a evolutionary perspective the main changes in Piaggio accounting and managerial control system, which occurred as a result of the combined action of various contingent factors. During the first (1884 - World War I) and the second period (years between the two World Wars) the architecture of the accounting control system appears affected by the size of the company, the influence of the State and the production change caused by the war that made the use of monitoring activities based on job-orders and batch production system adequate. In the third period Piaggio passed from a small-scale artisanal business into a much larger industrial system and the rise of production made urgent a more sophisticated cost control system to gain efficiency. Its design was addressed by several forces, for instance the scarcity of raw material, the call for increases of the amount of wages followed by strikes and the intervention of trade unions to support the workforce.

#### **4. The risks challenge**

There are several factors that lead organisations in the identification, evaluation and management of internal and external risks: financial distress, low

earnings performance, high cost of restructuring and reorganisation, growth opportunities and the independence of the board of directors (Khan et al., 2016). The magnitude of these risks should be measured when the strategic plans are designed and before their implementation. In this way, the identified risk that is associated with a specific strategic objective must be managed by performing a sound integration between internal auditing and management control systems (Marchi, Greco, 2016).

Unlike traditional risk management techniques, where a silo-based approach on financial risks only was adopted, Enterprise Risk Management (ERM) is emerged as a more advanced risk mitigation technique based on a holistic view of risk management which encompasses all organisational functions and levels (COSO, 2004). Since risk are interrelated (Grace et al., 2015, Power, 2009) especially in complex and globalised firms (Florio, Leni, 2017), ERM aims to manage the portfolio of risks in an integrated manner, taking into account the linkages across all risk typologies. In this approach, risk is seen not only from a down-side perspective, but also as an opportunity that can be exploited for the achievement of a competitive advantage (D'Onza et al., 2016).

In both accounting and corporate governance literature, the debate on ERM is focused on two main aspects: 1) the determinants among several firm characteristics that influence ERM adoption; 2) the effects of ERM adoption on firm performance.

The implementation of an ERM system concerns a change management processes that requires the absorption of a wide range of financial and human resources and the redefinition of organisational routines and procedures. Like any organisational change, there are many obstacles in ERM implementation (firstly, the doubts about the benefits of improving company performance) and many firms have not been able to come to a full implementation.

Risk management is deemed to improve performance because it helps firms to: 1) avoid losses, bankruptcy, and reputational costs (Baxter et al., 2013); 2) enhance firms decision-making (Grace et al., 2015); 3) enhance capital allocation processes (Hoyt and Liebenberg, 2011). While these arguments are largely promoted by the scientific debate, empirical evidence on the link between ERM adoption and firm performance shows contradictory results.

The Special Issue takes risk management as a fundamental control techniques for the improvement of firm value (Pavan, 2019). Papers provide with some conceptual and empirical concerns that contribute to the advancement of knowledge in the field.

Lavorato, Lamboglia and Mancini question the relationship between reputational risk and management control through performing a literature review. They find out that prior studies mainly adopt an audit and risk management approach, delivering a structured picture made up of actions, processes, and tools for mitigating and monitoring the reputational risk. Their paper also shows the absence of an integrated framework for guiding and directing the activity of management and the lack of support for decision-making processes.

## 5. Conclusions

Over the past 15 years accounting and management control literature has investigated both financial crises (Becker et al., 2016) and natural disasters (Sargiacomo, 2014, 2015), without engaging with pandemic events, which have become more frequent (Rahaman et al., 2010; Schaltegger, 2020). In order to face the disruptive effects of crises, it is becoming increasingly important to integrate various control tools in a balanced way: internal control, accounting and management control systems, risk management and enterprise risk management. This approach becomes a paradigm shift in governing the firm. This is what emerges from the analysis of the papers of the Special Issue, where conceptual and empirical research works that balance innovation, performance measurement and risk management can be found.

## References

- Arcari A., Pistoni A., Moretto E., Ossola P., Tonini D. (2016), How Italian companies are monitoring innovation, *Management Control*, 2, pp. 143-165. Doi: 10.3280/MACO2016-002007.
- Avina J. (1993), The Evolutionary Life Cycles of Non-governmental Development Organizations, *Public Administration and Development*, 13(5), pp. 453-474.
- Barbetta G.P., Anheier H.K., Hwang C., Salamon L.M. (1993), *Defining the nonprofit sector: Italy*. Working Paper of The Johns Hopkins Comparative Nonprofit Sector Project. Johns Hopkins Institute for Policy Studies. -- Retrieved from [http://ccss.jhu.edu/wp-content/uploads/downloads/2011/09/Italy\\_CNP\\_WP8\\_1993.pdf](http://ccss.jhu.edu/wp-content/uploads/downloads/2011/09/Italy_CNP_WP8_1993.pdf).
- Barretta A.D., Anessi Pessina E., Pavan A. (2018), Nuove sfide per il governo delle amministrazioni regionali: implicazioni per i sistemi di bilancio, programmazione e controllo, *Azienda pubblica*, 4, pp. 363-384.
- Baxter R., Bedard J.C., Hoitash R., Yezegel A. (2013), Enterprise risk management program quality: Determinants, value relevance, and the financial crisis, *Contemporary Accounting Research*, 30(4), pp. 1264-1295.

- Becker S.D., Mahelendorf M.D., Schaffer U., Thaten M. (2016), Budgeting in times of economic crisis, *Contemporary Accounting Research*, 33(4), pp. 1489-1517.
- Bisbe J., Malagueño R. (2015), How control systems influence product innovation processes: examining the role of entrepreneurial orientation, *Accounting and Business Research*, 45(3), pp. 356-386.
- COSO, (2004), Enterprise risk management, -- available on the internet at <http://www.coso.org>.
- Costantini A., Zanin F., Fasan M. (2019), Strategia, incertezza ambientale e balanced scorecard. Quali impatti sulla performance aziendale?, *Management Control*, 2, pp. 39-65. Doi: 10.3280/MACO2019-002003.
- Crossan M.M., Apaydin M. (2010), A Multi-dimensional framework of organizational innovation: a systematic review of the literature, *Journal of Management Studies*, 47(6), pp. 1154-1191.
- Davila A. (2005), The promise of management control systems for innovation and strategic change, in Chapman, C.S. (ed.), *Controlling Strategy: Management, Accounting, and Performance Measurement*, Oxford, Oxford University Press, pp. 37-61.
- D'Onza G., Rigolini A., Brotini F. (2016), Esiste una strategia di Internal Auditing che crea valore? Un'analisi empirica del contesto italiano, *Management Control*, 1, pp. 125-148. Doi: 10.3280/MACO2016-001008.
- Florio C., Leoni G. (2017), Enterprise risk management and firm performance: The Italian case, *The British Accounting Review*, 49(1), pp. 56-74.
- Franco-Santos M., Lucianetti L., Bourne M. (2012), Contemporary performance measurement systems: A review of their consequences and a framework for research, *Management Accounting Research*, 23(2), pp. 79-119.
- Grace M.F., Leverty J.T., Phillips R.D., Shimpi P. (2015), The value of investing in enterprise risk management, *The Journal of Risk and Insurance*, 82(2), pp. 289-316.
- Hall M. (2008), The effect of comprehensive performance measurement systems on role clarity, psychological empowerment and managerial performance, *Accounting Organizations and Society*, 33(2-3), pp.141-163.
- Hoyt R.E., Liebenberg A.P. (2011), The value of enterprise risk management, *Journal of risk and insurance*, 78(4), pp. 795-822.
- Khan M J., Dildar H., Waqar M. (2016), Why do firms adopt enterprise risk management (ERM)? Empirical evidence from France, *Management Decision*, 54, pp.1886-1907.
- Marchi L. (2019), Governo delle aziende e creazione di valore: da una prospettiva finanziaria ad una prospettiva economico-sociale, *Management Control*, 1, pp. 5-16. Doi: 10.3280/MACO2019-001001.
- Marchi L., Greco G. (2016), Percorsi di integrazione tra auditing e controllo di gestione, *Management Control*, 3, pp. 5-8. Doi: 10.3280/MACO2016-003001.
- Neely A. (2005), The evolution of performance measurement research-developments in the last decade and a research agenda for the next, *International Journal of Operations & Production Management*, 25(12), pp. 1264-1277.
- Parker L. (2014), Qualitative perspectives: through a methodological lens, *Qualitative Research in Accounting and Management*, 11(1), pp. 13-28.
- Pavan A. (2019), Controllo interno e di gestione nella prospettiva del valore, *Management Control*, Suppl. 1, pp. 5-12. Doi: 10.3280/MACO2019-SU1001
- Presti C., Mancini D. (2020), Il risk management e i social media: un'analisi della loro relazione in letteratura, *Management Control*, 2, pp. 155-178. Doi: 10.3280/MACO2020-002007.

- Power M. (2009), The risk management of nothing, *Accounting, Organizations and Society*, 34(6-7), pp. 849-855.
- Rahaman A.S., Neu D., Everett J. (2010), Accounting for social purpose alliances: confronting the HIV/AIDS pandemic in Africa, *Contemporary Accounting Research*, 27(4), pp. 1093-1129.
- Sargiacomo M. (2014), Accounting for natural disasters & humanitarian interventions, *Critical Perspective on Accounting*, 25(7), pp. 576-578.
- Sargiacomo M. (2015), Earthquakes, exceptional government and extraordinary accounting, *Accounting, Organisations and Society*, 42(2), pp. 67-89.
- Schaltegger S. (2020), Unsustainability as a key source of epi- and pandemics: conclusions for sustainability and ecosystems accounting, *Journal of Accounting and Organizational Change*, 16(4), pp. 613-619.