J Bus Econ (2016) 86:809–811
DOI 10.1007/s11573-016-0833-5

EDITORIAL

Editorial

Rainer Baule[1] · Günter Fandel[2]

Published online: 13 August 2016
© Springer-Verlag Berlin Heidelberg 2016

Risk governance fills the gap between the institutionally oriented field of corporate governance and the methodologically oriented area of risk management. As such, it covers a broad range of topics, including the identification, evaluation, controlling, and communication of various types of risks, together with institutional questions how to establish a risk culture in organizations. The research group "risk governance", founded at the University of Siegen with members from the universities in Siegen and Hagen, aims at gaining new insights into this field from an academic perspective. In October 2015, the group hosted its 3rd annual conference, bridging theory and practice with 18 presentations of academics and practitioners. About 70 participants attended the conference, which has become an established platform for risk governance researchers and decision makers.

In its third year, the conference was accompanied by a special issue of the *Journal of Business Economics*. Participants as well as researches who could not attend the conference were invited to submit their papers to the journal in the aftermath of the conference. We received 13 high-quality submissions both from the conference and from outside, which were subject to a blind peer-review process with at least two referees per paper. As a result of the review process, five outstanding contributions could be selected for the special issue.

In line with the variety of the field of risk governance, the papers presented in this issue shed light on different aspects of the field. After a conceptual introduction to

✉ Rainer Baule
rainer.baule@fernuni-hagen.de

Günter Fandel
guenter.fandel@fernuni-hagen.de

1 Chair of Banking and Finance, FernUniversität in Hagen, Universitätsstr. 41, 58084 Hagen, Germany

2 Center for Production Economics and Decision Support, FernUniversität in Hagen, Universitätsstr. 41, 58084 Hagen, Germany

risk governance as an academic research area, two papers deal with issues of risk governance in corporations, namely the effects of incentive systems on the risk-taking behavior of decision makers and the impact of environmental, social, and governance factors on market-based firm risk. The final two paper focus on the financial sector, in particular on the effectiveness and implications of risk-sensitive regulation in the European banking system and on the dynamics of market risk and interest rate risk of the system of US bank holding companies.

The opening article of *Stein* and *Wiedemann* sharpens the view of risk governance as a decisive element between risk management and corporate governance. The authors develop a conceptual understanding of risk governance, deducing a number of generalized theses, with respect to its focus on "microprudential issues from the inside", its opportunity as a "third track" between risk-based approaches to governance and the operative governance of risks, its property as the organizational option for the decentralization of risk model design, its chance as a top-down catalyst for risk model issues, its commitment to the norms of "good corporate governance", and its contribution to long-term corporate value optimization. As key tasks they identify the design of risk models, the determination of model risks, the research and development in risk issues, and the risk consultancy for top management. The article concludes with an agenda for academic research in the young field of risk governance.

Schedlinsky, *Sommer*, and *Wöhrmann* analyze the effects of incentive systems in corporations on the risk-taking behavior of decision makers. In particular, they consider compensation schemes which depend on the relative performance of employees compared to a peer group ("tournaments"). The establishment and design of employee compensation and incentive schemes can be seen as an integral part of a corporation‘s risk governance approach, as it is institutional by nature and can have substantial effects on the risk of the firm, taken by the incentivized managers as its agents. The authors conduct an experimental study to gain insight in the risk attitude of individuals within corporate tournaments. The results, theoretically justified with well-known psychological relations, provide rules how to set up the tournament incentive scheme in order to achieve a desired level of risk taking of the participating managers.

The effects of corporate social performance on firm risk are the subject of the article by *Sassen*, *Hinze*, and *Hardeck*. While corporate social performance, divided into environmental, social, and governance factors, might not be a risk governance issue at first glance, the results of the study show that the risk aspects of these factors must not be neglected. The authors conduct an extensive panel analysis of European firms. Risk is measured as market risk using the variability of stock returns. As a key finding, a higher corporate social performance decreases total risk and idiosyncratic risk. In particular the improvement of social factors such as providing high-quality job conditions and a healthy and safe workplace leads to a substantial risk reduction.

The contribution of *Baule* and *Tallau* focuses on risk governance from the perspective of the society, namely the regulatory authorities, instead of the single firm. The authors analyze the impacts of risk-based banking regulation, discussing the effectiveness of current standards in terms of risk sensitivity and potential dangers arising from unintended cyclical effects. By comparing regulatory risk specified by banking supervision and economic risk measured by a market-based approach, they assess the risk-sensitivity of regulatory standards. In contrast to similar studies, they distinguish between cross-sectional risk-sensitivity as a desired feature and longitudinal risk-sensitivity as a potential danger due to cyclical effects. The key findings, based on a panel of large European banks, are somehow good news: Risk-sensitivity is better than assumed, and despite widespread fears, the introduction of Basel II has not substantially increased the cyclicality of regulatory capital requirements.

Also the article by *von la Hausse*, *Rohleder*, and *Wilkens* considers the risk in the banking system as a whole, not in a particular bank. The authors analyze the dynamics of market risk and interest rate risk of the system of US bank holding companies. Applying an econometric approach, they measure the aggregated exposure of the banking system to market risk and interest rate risk over time. By means of a factor analysis they show that the main factors driving the variability of exposures are related to economic output and employment, housing market conditions, as well as term and credit spreads. Furthermore, while the system's overall leverage affects both the exposure to market and interest rate risk, its size, the ratio of loans to total assets, and loan growth are related to the aggregated market risk exposure only.