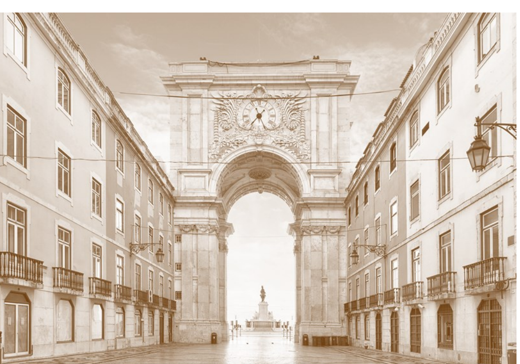
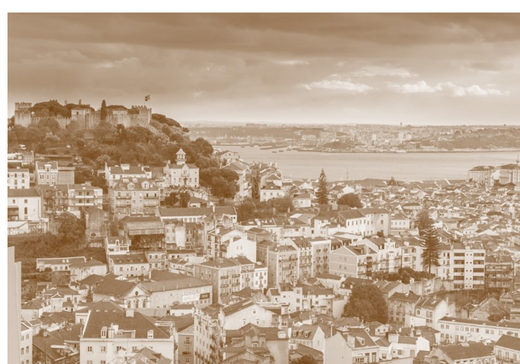
REPORT

International Conference

"Corporate Governance and Company Performance: Exploring the challenging issues"

October, 26, 2017, Lisbon, Portugal





International conference "CORPORATE GOVERNANCE AND COMPANY PERFORMANCE: EXPLORING THE CHALLENGING ISSUES" took place in Lisbon on October 26, 2017 with the joint organizational participation of ISEG Lisbon, publishing house "Virtus Interpress", ADVANCE research center and Virtus Global Center for Corporate Governance. The idea of the conference has been developed by Professor *Alex Kostyuk* and Prof. *Maria João Guedes* at the beginning of 2016.

The main purpose of the conference was to provide the platform for academics and practitioners from many countries of the world to analyze recent trends and upcoming challenges in corporate governance and company performance, major challenges and new horizons in further researching.

The conference took place at the heart of one of the oldest cities in the world at the beautiful campus of ISEG Lisbon. About 50 experts from 20 countries of the world that represented leading universities and organizations of Europe, USA, Asia, Africa and Middle East gathered with the aim to take part in the conference.

The conference started with welcome remarks of co-chairs of organizing committee: Professor *Maria João Guedes*, representing ISEG Lisbon and Professor *Alexander Kostyuk* representing Virtus Global Center for Corporate Governance. Speakers wished the participants productive work and expressed the hope that attendees will contribute to the solution of important economic and legal issues, and conference will stimulate the creation of new partnerships and academic acquaintances.

Then the floor was given to the first keynote speaker. Professor, Chair of the Department of Economics, Econometrics and Finance, Faculty of Economics and Business, University of Groningen, *Niels Hermes*. His speech was titled "Board Dynamics and Firm Performance: The Missing Link in Corporate Governance Research". Prof. Hermes argued that in the majority of research papers on the relationship between boards and performance the board's internal context is missing but a multi-disciplinary approach helps understanding the relationship between boards and performance. He has made very interesting suggestions and examples of how can board researchers learn from research of behavioral scientists about individual and group behavior. According to his presentation insights from various disciplines should be combined for performing more precise and accurate research on corporate boards. Taking into account that during the last decade several Nobel prizes in economics were awarded for the research connected to behavioral sciences, suggestions of Prof. Hermes were met by the audience with great enthusiasm and caused interesting discussions.

The second keynote speaker was Professor *Maclyn Clouse*, representing Reiman School of Finance, University of Denver, USA. In his key-note speech Prof. Clouse told about secretly developed corporate governance principles that were introduced by the CEOs of leading corporations in USA. Prof. Clouse outlined key information on the introduced principles and approached them with the detailed critique and analysis. He has mentioned that no specific guidance on earnings management was provided by these corporate governance principles. Prof. Clouse paid special attention to the buybacks of the shares by the companies since the major obligation of a public company should be to find the best use of its capital to create long-term value for its shareholders, however, recently many companies have chosen buying back their own common shares. After an active Q&A sessions, participants continued networking at the coffee break.

After the break the plenary part continued with three very interesting presentations. *Victor Barros*, representing ISEG – Lisbon School of Economics & Management, and ADVANCE/CSG presented an analysis of the change in corporate tax avoidance following M&A deals, with focus on the influence of profitability and deal characteristics. He and his colleague Daniel Duarte tested several M&A features in a sample which covers 391 European deals announced between 2005 and 2014. Victor concluded that there is no evidence of changes in acquirer's ETR following M&As. However, the authors found evidence of a decrease in Book ETR when the target firm exhibits negative pre-tax income before the deal. Authors' findings support the longstanding view that taxation may not trigger M&As, although significant tax savings appear to occur for certain M&A characteristics.

Prof. *Eric Pichet* from KEDGE-Business School and acting independent director in French listed companies after covering a progress in the governance of listed companies over the past years, continued to identify main challenges currently facing the boards, namely the exponential rise in the number of risks and the difficulties of developing relevant strategies. Then he suggested ways of reinforcing the role that could be played by two crucial committees of the boards. The audit committee to whom internal auditors should report directly should also absorb the existing risk committee of the board. According to Prof. Pichet the strategic committee should play a more important role in the ex ante preparation – in conjunction with consultancies and executive directors – of the strategic plans that the board has to be discussed more deeply.

Prof. *Anabela Miranda Rodrigues* from the University of Coimbra in Portugal and Former Minister of Internal Affairs of the country talked in her presentation about legal aspects of corporate compliance with the legislation and possible negative outcomes in case companies fail to do so. According to the presenter, the compliance theory rests on an assumption that internal compliance programs reduce the incidence of prohibited conduct within organizations. However, they present problems with regard to criminal law: they may serve as «window-dressing» that provides reduced corporate liability. They are a tool for administrators to increase their power in the company and help avoid liability. She concluded that effectiveness (and legitimacy) of compliance programs require increasing their credibility through independent, professional and participatory compliance bodies and link them to deliberative business ethics and stakeholder's democracy. After the plenary session the participants continued discussions and networking at the lunch served on the beautiful terrace with the picturesque view on the city.

After lunch the conference continued in three parallel sessions devoted to various issues of corporate governance. The first session, titled Corporate Governance and Firm Performance was chaired by Prof. Maclyn Clouse. The first speaker, *Sofia Lourenço*, representing ISEG and ADVANCE/CSG Research Center (Portugal) approached a problem of managers' incentives in SMEs. Prof. Lourenço aimed to explore the interplay among different types of incentives (monetary, non-monetary, benefits and punishment) and managerial performance and job satisfaction in SMEs. She revealed that no single incentive in isolation, in comparison to a combination of incentives, is associated with high managerial performance. In contrast, the sole use of benefits or monetary incentives is associated with high managerial job satisfaction. Furthermore, the study provided further evidence of the best-fit incentive packages associated with high performance or satisfaction for owner/non-owner managers, managers in small/medium enterprises, and family/nonfamily firms.

The floor was then given to *Sara Trucco*, from the Università Internazionale degli Studi di Roma (Italy) who presented a research performed together with her colleagues *Iacopo Cavallini and Giuseppina Iacoviello* from the University of Pisa. The authors analyzed the difference in the performance and in the reputation risk between SOEs and private firms in Italy. The research found that SOEs have higher ROE and higher Cash flow/sales than private firms have, but lower Tobins' Q than private firms. Further, there are no statistically significant differences in the reputation risk; therefore financial analysts do not perceive any difference in the reputation risk between private and SOEs.

The third presentation in the session was delivered by Prof. *Maclyn Clouse*, who showed the results of the joint research with Prof. Hugh Grove. In the presentation, Prof. Clouse covered an exceptionally interesting case of corporate fraud. He noted, that in the 21st century U.S. frauds destroyed well over one trillion of market capitalization and one of the most interesting examples of such fraud is Valeant's 2016 market cap destruction of $86 billion. So the speaker raise the question : where were the gate-keepers (boards of directors, regulators, sell-side financial analysts, and auditors) to protect investors? Thus the authors developed lessons learned from this $86 billion scandal to emphasize the importance of corporate governance principles as a pathway to avoid such malpractices in the future.

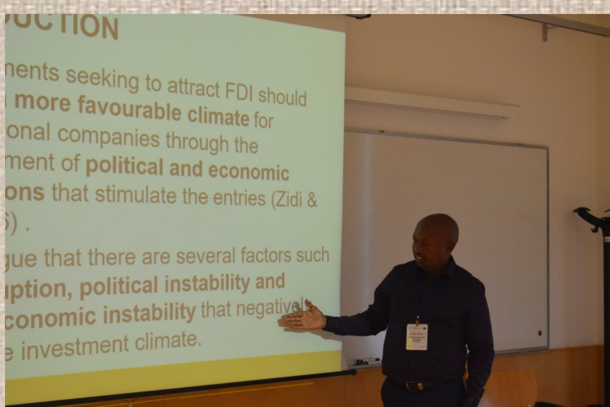
Mamdouh Abdulaziz Saleh Al-Faryan from Portsmouth Business School (UK) followed with his presentation on the relationship between corporate governance mechanisms and the performance of Saudi listed firms. The author reported that he has found two variables to have a significant negative relation on firm performance: chief executive officer turnover and independent board members. He noted that the companies in the region should approach CEO turnover with caution because it has a strong influence on the financial performance of the firms.

The next presentation followed and was delivered by *André Luiz Carvalhal da Silva* from the Federal University of Rio de Janeiro (Brazil) who, together with his colleague *Marie Dutordoir* from the University of Manchester (UK) analyzed the governance of SOEs in Brazil, which has been plagued by corruption scandals. Examples The researchers find that the governance of SOEs is significantly better than that of POEs. The results were robust to different governance measures, and are surprising because they reject the common assumption that SOEs have worse governance than POEs. However, Andre concluded that the governance practices of POEs in Brazil are as poor as those of SOEs.

After the networking coffee break the session continued it's work.

Telmo Vieira representing School of Economics and Management (ISEG), University of Lisbon (Portugal) in his presentation talked about firm performance and corporate governance variables. He examined the effect that corporate governance variables have on the performance of companies in the UK for the period 2005-2012. The author considered five mechanisms of corporate control: control of board of directors, control through equity ownership structure, internal control performed by the Board Committees, separation of CEO and Chairman roles, and control through the performance variable remuneration. The equity ownership structure, together with the separation of CEO and Chairman roles and control through the performance variable remuneration, proved to be the most significant mechanisms in the resolution of the equation performance - governance. Finally, Telmo stated that corporate governance is a dynamic process in which all stakeholders should be taken into account in order to achieve a common goal - develop a governance model that is sustainable and beneficial to society.

Yerzhan Tokbolat from the Nottingham University Business School (UK) continued the session with the presentation devoted to the consequences of shareholder voting on performance in the UK. The author did not find evidence that shareholder votes are related to post-M&A performance. He argued that this is because shareholders are likely to vote against with the sole purpose of showing their dissatisfaction with a particular deal or the acquisition strategy of their managers. Therefore, dissent may be effective in monitoring the managers' acquisitions strategies rather than the performance of the firm.



Regina Magkata representing University of Limpopo (South Africa) took the flor to talk about joint research with Prof. *Collins Ngwakwe* on their joint research devoted to labor turnover and corporate revenue in the light of corporate control. The authors found a significant relationship between managerial labour turnover and revenue of large retail companies. They noted that depending on the cadre involved, labour turnover might not necessarily be catastrophic for corporate performance.

The session finished with the presentation of *Itumeleng Mongale* from the University of Limpopo (South Africa who talked about governance and foreign direct investment nexus. He employed the bounds testing autoregressive distributed lag approach to cointegration which is appropriate for estimation in small sample studies such as this one with an annual time series data spanning from 1996 to 2015. The author noted that FDI inflows into Africa have been significantly impacted by the resources cycle which is currently in a downturn.

The second session of the conference that was devoted to reporting, earnings management and corporate control issues and chaired by Professor Maria Guedes included 9 presentations. The scientists from *Spain, Italy, Finland, Portugal, Indonesia, UK and Slovenia* took part in session conducting.

The lively interest was raised by the report of *Thomas A. Gilliam*, where researcher investigated whether firms manage order backlog to beat two revenue benchmarks: prior year's revenue and analysts' forecasts of revenue. The representor of IE Business School (Spain) found that managers were more likely to draw down order backlog when their firms' current period orders were insufficient to beat a revenue benchmark. During the session the specifics of the impact of ownership concentration on earnings quality of banks were discussed.

Simone Terzani from University of Perugia (Italy) focused on banks and the specific constrains and regulations to which financial institutions are subjected, and as well as the different incentives to earnings management activities from management and property. The results show that ownership concentration improves earnings quality of banks.

The scientist from Finland (JAMK University of Applied Sciences) *Shab Hundal* identified the effect of board of directors', and other corporate governance characteristics of the firms in the Nordic nations (Finland, Sweden and Denmark) on the quality of financial information, measured by discretionary accrual.

Co-chairs of the conference committee Professor *Maria João Guedes* in her report explored whether the number of women on a board impacts earnings management. Presented results suggested that female directors were associated with fewer income-increasing discretionary accruals, which implied that they were more conservative regarding financial reporting.

Ana Isabel Lopes from ISCTE-IUL (Lisbon) made a presentation which based on the analysis of the potential market benefits of presenting a high quality Integrated Report. Main findings confirmed that either the book value of equity or operating income had a positive and statistically significant impact on the market value.

Moreover, the researchers from Indonesia (*Yulius Kurnia Susanto and Arya Pradipta*) presented their report on empirical evidence of earnings management, audit quality, tenure, firm size, leverage, liquidity, inventory and losses.

Scientific problems of the shareholder duties were discussed during the presentation of *Konstantinos Sergakis* from University of Glasgow (UK). The following sources of shareholder duties were underlined in the speech-contractual arrangements, statutory provisions, general legal principles, soft law.

The second session was closed by the presentation of *Iryna Alves and Sofia Lourenço (ISEG, Portugal).* The authors explored the relationship between contextual variables (strategy, external environment, organizational culture, decentralization and technology) and the use of non-financial performance measures (NFPM) for managerial compensation in SMEs.

The third session of the conference was headed by *Yaroslav Mozghovyi* and *Yulia Lapina* (Ukrainian members of conference organizing committee). Opening the session *Ana Beatriz Hernández-Lara* and *Xiaoni Li* (Spain) contributed to the literature on corporate governance and innovation, providing empirical evidence with respect to the evolution of board composition and innovation over time, comparing between family and non-family businesses. The researchers highlighted the differences between family and non-family business.

Another Spanish researcher *Elena Merino* from the University of Castilla-La Mancha showed that while some board characteristics that favor the interests of shareholders might not apply to the interests of stakeholders (particularly, Board ownership), others (Board independence and Separation of Chairman/CEO) could be shown to promote board effectiveness from the stakeholders' perspective.

Senior economist of Bank Transilvania and Scientific researcher of Institute for World economy (Romanian Academy) *Andrei Radulescu* analyzed implement standard econometric tools in order to estimate the relation between the equity risk premium in CEE countries and several important macroeconomic and financial indicators, both regional and global, during 2000-2017.

Kazuyuki Shimizu from School of Business Administration Meiji University (Japan) investigated how structural governance change is triggered by cybernetics issues, such as by the development of automotive navigation systems in German, Japanese and US automotive industries.

Mark Holmes from Faculty of Business and Law, Coventry University (UK) analyzed the performance consequences of board structure changes in Ghana for the study period 2000 to 2009. The results showed that duality decreased firm performance pre-2003, but those firms that separate the two posts in line with the recommendations of the Ghanaian Code did not perform better than those that combined the two post-2003.

The report of *François Joseph Cabral* from University Cheikh Anta DIOP (Senegal) built a dynamic computable general equilibrium model which integrates into the capital accumulation module parameter that captures the leak public and private investments attributed to corrupt behavior. Results obtained showed that, overall, a leakage of 10% public investment induced a contraction of economic activity.

Karin Barthelmes-Wehr from International Ethics Standards Coalition (Germany) described the objective of IES (International Ethics Standards) as establishing an overarching set of global principles that would reaffirm the importance of ethics in real estate and evolved to meet the needs of today's global market; promoting the effective implementation of these standards and encourage world markets to accept and adopt IES as the ethics framework for our global professions. She underlined 10 High Level Principles: accountability, confidentiality, conflict of Interest, financial responsibility, integrity, lawfulness, reflection, standard of service, transparency and trust.

According to the comments of the participants who attended the conference it was held at a high level, it was a great chance to hear some brilliant research ideas and also benefit from colleagues' insights. Overall, it was a completely stress-free type of academic conference.

Organizational committee of the conference would like to express their gratitude to all participants and supporters who joined our international network and visited Lisbon to make their deposit by high quality presentations and interesting discussions.

Members of Virtus Global Center for Corporate Governance and executive team of the Publishing House "Virtus Interpress" would like to express great appreciation to Portuguese colleagues from ISEG – Maria João Guedes and João Manuel Jorge Estevão for their contribution to the conference.

We are looking forward to seeing all of you at our future events!

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