

Emerging Markets Corporate Governance Research Network Newsletter

Dear Colleagues,

We are very happy to inform you that the **5th International Conference on Corporate Governance in Emerging Markets** will be held on September 25 - 26, 2015, and it will be hosted by HHL Leipzig Graduate School of Management, Germany. The [submission deadline is April 30, 2015](#), and final decisions will be announced by June 1, 2015. Once again our conference is taking place in an exciting era in the history of corporate governance research, as empirical research on CG in emerging markets is reaching another tipping point. We very much look forward to seeing you in Leipzig!

In our 17th issue you will once again find the latest research papers, opinions pieces, news and upcoming events. We also feature an interview with Prof. Randall Morck, who highlights the importance of reducing systemic corruption and improving adherence to the rule of law.

CG Insights

The Connection Between Powerful Independent Directors and Shareholder Valuations



Randall Morck is Jarislowsky Distinguished Professor of Finance School of Business at the University of Alberta and a research associate with the National Bureau of Economic Research in Cambridge, Massachusetts. Areas of research interest include corporate governance, executive compensation and behavioral finance. This is an abbreviated version, please read the full interview [here](#).

The most interesting piece on corporate governance in emerging markets I read recently is...

... A fascinating two-volume series, *The Origins of Political Order and Political Order and Political Decay*, by Francis Fukuyama. The books drive home how incredibly hard it is for countries to instill the rule of law and rid themselves of widespread and systemic corruption. He looks at how the United States conquered the robber barons and how Great Britain got the aristocracy under control, and demonstrates that this takes generations and massive reform. After reading these books, I have

a newfound respect for emerging markets that are making progress on rule of law, like Colombia.

Right now I am working on...

... An extension of my earlier research that reveals a significant and positive correlation between better company valuation and the presence of high-powered independent directors in the US. For purposes of the study, power is defined by the strength of the resume and the connectivity of the individuals to others of equal stature.

In the US study, we look at sudden deaths of powerful independent directors to see whether the presence of these powerful independent directors is what boosts share valuations or if they simply tend to join the boards of firms whose share prices are already high. We find that such sudden death events immediately and significantly reduce shareholder value, thereby concluding that it is their presence that influences share valuations. We also find that more powerful independent directors are associated with fewer value-destroying acquisitions, less free cash flow retention, more accountability for poor performance, and less earnings manipulation. [More...](#)

My ongoing research will explore this issue as it relates to emerging markets, starting with China.

For emerging markets, powerful independent directors may not be the force for good governance we see in the US...

... Because there's a fundamental difference in emerging markets compared to developed economies, which is that that corruption is a much bigger problem. In many emerging markets you typically have a small core of wealthy families who each control huge groups of big businesses. Often, they are part of a political elite. This can create a sense of invincibility and being above the law. If the power of the independent directors in those countries comes from connections with other wealthy families or the political elite, then it might only reinforce the notion of being above the law.

More importantly, if the higher shareholder valuations reflect corruption money rather than better management, then the link between higher shareholder valuations and a more efficient economy breaks down. [More...](#)

I think the most relevant CG research topic for emerging markets now is...

.... Reducing systemic corruption and improving adherence to the rule of law. Until the broader corruption and rule-of-law issues are addressed, other company-level corporate governance-related improvements really won't make much of a difference. These changes are going to take a long time and a lot of hard work.

[Read the full interview.](#)

Research

[East Asian Business Networks and Crisis Performance](#)

Richard W. Carney, and Travers Barclay Child

Do political ties, family-business-group affiliations and professional connections collectively matter for firm performance in Asia? Using a novel "connections" dataset for 1,290 East Asian firms, the authors argue that only professional networks matter for Asian firms during crises. Despite earlier findings, family connections and political networks didn't actually benefit Asian firms during the

recent financial crisis. On the other hand, one standard deviation increase in professional network position increases ROA by 0.32%. This finding lends support to the hypothesis that professional connections are more important for firm performance during downturns.

[*Credit Booms and Busts in Emerging Markets: The Role of Bank Governance and Risk Management*](#)

Andrei Marius Andries, and Martin Brown

Andrei and Brown use a unique, hand-collected dataset of 156 banks from Central and Eastern Europe, and they examine whether banks with stronger corporate governance display smaller credit growth before the recent financial crisis as well as smaller credit contraction and fewer credit losses during the crisis. They find that a higher share of financial experts on the supervisory board is associated with more rapid credit growth in the pre-crisis period and a larger contraction of credit in the crisis period, but not with larger credit losses.

[*The Political Economy of Corporate Finance: Evidence from 'Re-nationalization' in China*](#)

Zhangkai Huang, Lixing Li, Guangrong MA, and Jun Qian

China has been re-nationalizing over the past decade, and this change impacted corporate sector heterogeneously. The authors argue, for example, that firms located in provinces with newly appointed, top-ranked Communist Party leaders who are not affiliated with any of the dominant political factions are more likely to be re-nationalized. Furthermore, the authors fail to find long-term benefits of re-nationalization.

[*Facing the Regulators: Non-Compliance with Detailed Mandatory Compensation Disclosure in Brazil*](#)

Lucas Ayres B. de C. Barros, Alexandre Di Miceli da Silveira, Patricia Maria Bortolon, and Ricardo Pereira Camara Leal

In this forthcoming paper, the authors look at the implications of an interesting court order in Brazil that gave public companies an option of non-compliance with the most sensitive part of newly mandated compensation disclosure rules. Along with many other results, they find that non-compliers tend to present lower corporate governance quality, higher ownership concentration, larger total assets, and less profitability. There is however, no association between state-level crime data and non-compliance.

Opinion and Commentary

[*Does Having Women on Boards Create Value? The Impact of Societal Perceptions and Corporate Governance in Emerging Markets*](#)

S. N. Abdullah, K. N. I. Ku Ismail, and L. Nachum

Abdullah, Ismail and Nachum investigate the impact of female directors in Malaysian firms, and they find that female directors create value for some firms and decrease it for others. The impact of female directors varies across different performance indicators, firms' ownership and boards' structure.

[*Keynote Address on Corporate Governance, Value Creation and Growth*](#)

Gabriela Ramos Chief of Staff and G20 Sherpa, OECD, 2014

[*The Birth of An Entrepreneurial Board in Emerging Markets: A Russian Case*](#)

Alexander Libman, Tatiana Dolgopyatova, and Andrey Yakovlev

In this case study, Libman, Dolgopyatova, and Yakovlev investigate a Russian firm with a concentrated ownership structure. They examine the reasons for empowering boards in founder-managed companies with arguably small principal-agent problems can be sensible.

Further readings on this topic:

[Controlling Shareholder Entrenchment, Investor Protection, and Firm Cash Holding: Chinese Experience](#) Xiaoran NI.

[The Effect of Capital Structure and Ownership Structure on Firm Performance: A Test of the Reverse Causality Hypothesis in ASEAN Countries](#)

Rizal Adhari Viverita D.

Reports

[Corporate Bonds, Bondholders and Corporate Governance](#)

OECD Corporate Governance Working Papers

Serdar Çelik, Gül Demirtaş, and Mats Isaksson

Bondholders can play a pivotal role in corporate governance through their exit and voice. A recent OECD report provides a comprehensive global overview of all corporate bond issues since 2000 and experiences of governance engagement by bondholders. The report builds on issue level data for more than 100,000 individual bond issues in 108 jurisdictions between 2000 and 2013.

[Balancing Rules and Flexibility](#)

ACCA, KPMG

A recent report by ACCA and KPMG in Singapore analyzed CG requirements in 25 different markets in terms of the clarity, degree of enforceability and number and type of instruments used. The top three highest scoring markets with the clearest and most comprehensive corporate governance requirements are, in descending order, the UK, US and Singapore. Australia, India and Malaysia jointly ranked fourth while Hong Kong and Russia tied for the fifth position. The markets with the lowest scores, in descending order, are the Philippines, Indonesia, Canada, China, Cambodia, Japan, Vietnam, Myanmar, followed by Brunei and Laos.

Events and Calls for Papers

[5th International Conference on Corporate Governance in Emerging Markets](#) will be held on September 25 - 26, 2015, and it will be hosted by HHL Leipzig Graduate School of Management, Germany. Submission deadline is April 30, 2015, and Decisions will be announced by June 1, 2015.

[Adam Smith Workshops in Asset Pricing and Corporate Finance 2015](#) will take place at London School of Economics & Political Science, London, England on March 20-21, 2015.

[6th Conference on Financial Markets and Corporate Governance](#) will be held on April 9-10, 2015 in Curtin Business School, Perth, Western Australia. Span of themes includes corporate governance and social responsibility.

Celebrating ICGN's 20 year anniversary, [the ICGN Annual Conference](#) will be hosted on June 3-5, 2015 in London, England.

[Asian Corporate Governance Association \(ACGA\)'s 2015 Annual Conference](#) will take place in Kuala Lumpur on November 4-5, 2015.

From Our Coordinator

We encourage all of our members to notify us regarding their ongoing research or the events or conferences they want to share with the Network. We also welcome other relevant information and your feedback. Please contact Mehmet Canayaz at Mehmet.Canayaz@sbs.ox.ac.uk

Thank you,

Melsa Ararat, EMCGN Coordinator

March 2014

The Emerging Markets Corporate Governance Research Network is supported by IFC Corporate Governance Group. The Group brings together staff from investment support and advisory operations into a single, global team. This unified team advises on all aspects of corporate governance and offers targeted client services in areas such as increasing board effectiveness, improving the control environment, and family businesses governance. The Group also helps support corporate governance improvements and reform efforts in emerging markets and developing countries, while leveraging and integrating knowledge tools, expertise, and networks at the global and regional levels.

For more information about the EMCGN's activities contact melsaararat@sabanciuniv.edu.

If you do not want to receive this newsletter, please reply with the subject line "Unsubscribe."