ecgi

european corporate governance institute

GCGC | TOKYO

2-3 June 2017

Annual Global Corporate Governance Colloquium TOKYO

www.gcgc.global

Conference Report

By Toshiaki Yamanaka (University of Tokyo)

International academics from the world's leading academic institutions gathered in Tokyo to take part in the 2017 Global Corporate Governance Colloquia (GCGC) conference on 2-3 June 2017. The event, hosted by the University of Tokyo (Hideki Kanda as conference chair) and organized by the European Corporate Governance Institute (ECGI), took place at the International Research Center at Tokyo University and was attended by more than 75 senior academics from a range of disciplines including Finance, Law, and Economics with the aim of sharing corporate governance knowledge on important topics. They included 6 sessions and 2 panel discussions. Video recordings, as well as papers and slides, are provided at the Conference website: **http://gcgc.global/events/tokyo-2017/.**

DAY 1 (2 JUNE 2017)

Morning Session (1): Chaired by Curtis Milhaupt

1. Common Ownership, Competition and Top Management Incentives

Mireia Giné (IESE Business School) presented theoretically and empirically that executives are paid less for their own firm's performance and more for their rivals' performance if an industry's firms are more commonly owned by the same set of investors. They challenge conventional assumptions in the corporate finance literature about the objective function of the firm. **Bo Becker** (Stockholm School of Economics) commented, for example, on the model; 1) does higher ownership concentration always lead to higher profits?; 2) does the model fit to time series?; and 3) the 2SLS setup adopted is hard to interpret. Giné responded to these comments and others that; 1) calculation of "concentration" is measured by publicly traded firms; 2) a mutual fund scandal could affect one passive (index) fund and others at the same time but it depends on voting outcomes; 3) it is possible to understand that Vanguard and portfolio managers are centralizing the voting.

2. Shareholders and Stakeholders around the World: The Role of Values and Culture in Directors' Decisions

Amir Licht (Radzyner School of Law, Herzliya) presented primary evidence about individual and institutional factors that guide board members of public companies around the world in addressing the fundamental strategic problem of dealing with shareholders and stakeholders. **Kenichi Ueda** (University of Tokyo) commented, for example, on key regressions (including reverse causality and endogeneity), selection of directors (industry specificity and country matters), acquired traits ("culture" could not be important when we consider an example of MBA program education), and the possibility of non-linear relationship. Licht responded that, for example, systematic evidences would be needed when we consider whether the Cadbury Report changed the dimension in the UK or not.

Morning Session (2): Chaired by Allen Ferrell

3. Adapting to Radical Change: The Benefits of Short-Horizon Investors

Mariassunta Giannetti (Stockholm School of Economics) presented that following large permanent negative shocks, firms with more short-term institutional investors suffer smaller drops in sales, investment and employment and have better long-term performance than similar firms affected by the shocks. **Oren Sussman** (Oxford Said Business School) commented, for example, on conditions for the analysis (conditional on firm characteristics, on trade, and on restructuring). Giannetti responded on; 1) institutional ownership of different institutions and; 2) liquidity and short-term investors, tangibility, and exit.

4. Leviathan Inc. and Corporate Environmental Engagement

The Economist called the resurgence of state-owned mega-enterprises, especially those in emerging economies, “Leviathan Inc.”, and warned about the dangers of the state capitalism model in 2010. **Pedro Matos** (Darden School of Business, Virginia), based on publicly-listed firms in 45 countries, suggested that government-controlled companies engage more in environmental issues, and this engagement does not come at a cost to shareholder value. **Alexander Ljungqvist** (NYU Stern Business School) commented on; 1) sample selection (countries, periods, and firms); 2) data (goodness of Orbis-data); 3) demeaning of dependent variable; 4) regression (state ownership is not randomly assigned); 5) 2009 Copenhagen accord is not internally valid DID, not a useful natural experiment, and; 6) causality. Matos responded on; 1) comparing state and private within the same industry; 2) industry elements in data, and; 3) better identifying externalities.

Afternoon Session (1): Chaired by Dan Puchniak

5. Capital Allocation Efficiency of Firms Outside the Business Group

Woochan Kim (Korea Business School) computed an annual index of the collective strength and dominance of large business groups (LBGs) per industry and discovered that this index is negatively associated with non-LBG firms' industry-level capital allocation efficiency during a period characterized by underdeveloped financial markets and weak investor protection. **Alexander Wagner** (Swiss Finance Institute, University of Zurich) commented on; 1) design of BSDI Index (including the size of ICM); 2) the reason for choosing top 30, not 31, companies, and; 3) relevance of business groups on overall economy. Kim responded on; 1) efficient allocation of capital across firms; 2) tangible and intangible assets, sales growth or investment; 3) financial sector development and investor protection; 4) why top 10 company is not enough, and; 5) point of entry and exit.

6. Does Agency Structure Dictate Agency Decision making: Implications of the CFPB's Design for Administrative Governance

Roberta Romano (Yale Law School) examined the relationship between agency structure and decisionmaking across four agencies with similar statutory missions, the CFPB, with a uniquely independent structure, CFTC, CPSC, and SEC, and presented data suggesting that agency structure influences agency decisionmaking. **Holger Spamann** (Harvard Law School) commented; on 1) the relationship between independence and accountability; 2) suggested a more nuanced view, based on enforcement and sanctions, and; 3) suggestion that comparative case studies can be helpful. Romano responded on; 1) political concerns of SEC; 2) agencies and "litigious" society; 3) strategic use of guidance and; 4) CFPB regulatory activity over time.






7. Panel Discussion (I): The Stewardship Code

Yasumasa Tahara (Financial Services Agency of Japan) explained the introduction and revision of the Stewardship Code in Japan on 29th May 2017. Then **Guy Jubb** (former Global Head of Governance & Stewardship, Standard Life Investments) commented on Japan's Stewardship Code, based on the experience at Standard Life Investments. **Ronald J. Gilson** (Stanford Law School, Columbia Law School) asked what is the problem that stewardship is supposed to solve, while noting that one problem may be the lack of incentives for asset managers because of economies of scale, and also stewardship is to incentivise people through a process of intermediaries. Tahara responded that there are some aspects in Japan which are not generalized in an international context, for example, GPIF (Government Pension Investment Fund), whose head is nominated by the Government, as a huge institutional investor.

Marco Becht (Solvay Brussels School, moderator) summarised the discussions to include the following; 1) in the UK, there can be an alternative story regarding the relationship between managers and firm, including the Walker Review after the crisis; 2) actual functions and operations of GPIF; 3) whether the Walker Review is supported by data or not; 4) optimal compensation scheme for asset managers; 5) Standard life as an example, and; 6) future possible research based on voting data.

8. Reception & Dinner

Takafumi Sato (President, Japan Exchange Regulation) spoke after dinner on the subject of "Disciplining Capital Markets: Roles of Principles" which included; 1) better regulation initiative; 2) merits and demerits of rules and principles; 3) principles-based approach; 4) decentralized discipline; 5) disciplines (regulatory, market, and self-discipline) and; 6) "Comply or Explain" approach.





DAY 2 (3 June 2017)

Morning Session (1): Chaired by Yishay Yafeh

9. The Value of Takeover Defenses

Robert Jackson (Columbia Law School) offered the first study of the shareholder welfare effects of poison pills and control share acquisition statutes in a research design that can support causal inference. **Emiliano Catan** (NYU School of Law) clarified the "bites" of legal shocks and questioned how much did the "bites" have. Jackson responded that; 1) clarifying the value of commitment could be important; 2) if event study assumes rationality of shareholders, it could not appropriate to evaluate the rationality of them, but it does not, and; 3) further possible extensions could be to clarify the difference between open-end assets and closed-end funds.

10. Managers' Personal Bankruptcy Costs and Risk-Taking

David Shoenherr (Princeton University), exploiting new bankruptcy reform in Korea, examined how managers' personal bankruptcy costs affect firms' financing and investment decisions. **Xu Peng** (Hosei University) commented on; 1) the gap between model and empirical work; 2) Chaebol issues (cash flow rights and private benefits); 3) alternative interpretation and; 4) alternative regressions. Shoenherr responded that; 1) regarding policy implications, one regime could be more efficient according to the types of insolvency; 2) there can be a possible broader story (including bankruptcy law before the reform), and; 3) bankruptcy law reform could affect different effects on personal risk preference of firms according to jurisdictions.

Morning Session (2): Chaired by Gen Goto

11. Minting Capital: The Role of the Corporation

Katharina Pistor (Columbia Law School), explored the role of corporate law in the minting of capital and reconsidered the concept of “shareholder value maximization”. **Kon Sik Kim** (Seoul National University) clarified some unclear points (Law and Finance literature) of this argument, for example, the main concept of “minting capital property” itself. Further comments from the audience included; 1) human factor is missing in the argument; 2) capital should be coded; 3) asset packaging in the law and corporation rules; 4) normative dimension of the argument; 4) relationship between the argument and the innovation of financial institutions, and; 5) legal arbitrage and credit rights. Pistor responded to these questions individually.

12. What Drives Corporate Inversions? International Evidence

Burcin Col (Pace University), documented that corporations invert to destinations with lower tax rates and similar governance standards. **Colleen Honigsberg** (Stanford Law School) commented on the research design (matched sample, firm operations, and country specific factors), and samples (period, firms, and availability of CapIQ from datastream). Col responded that; 1) exogeneity is being revised; 2) need to be careful on EU member states; 3) inversion is endogenous, so try to be more descriptive inside the ownership as well. Other comments from audiences included; 1) “race to the top” and “race to the bottom” argument can be mentioned and; 2) other motivations for corporate managers than tax benefits should be clarified.

13. Panel Discussion (II): The Changing Structure of Ownership

Firstly, **Gerard Hertig** (ETH Zurich, moderator) provided an introductory overview on the ownership debate. Secondly, **Yupana Wiwattanakantang** (National University of Singapore) provided an explanation of top management and ownership structure as an example of Toyota and Kashio both in Japan and concluded that ownership is only a part of the story. Thirdly, **Tobias Troeger** (Goethe University Research Center SAFE) showed reversals in Germany in 19th and 20th century. **Elisabeth Bechtold** (Zurich Insurance Group) provided commentary from the corporate sector. Further discussions included the following; 1) role of Chinese government on ownership structure (cash flow rights and governance rights); 2) Japan’s situation (the Bank of Japan as gigantic institutional investor as purchaser of ETFs), and; 3) regulatory dimensions (securities disclosure, new forms of ownership which are hard to understand by traditional taxonomy).

4. Afternoon Session (1): Chaird by Uwe Waltz

14. Corporate Employee-Engagement and Merger Outcomes

Hao Liang (Singapore Management University & **Cara Vansteenkiste**, Tilburg University), extending the theories of employee incentives and "inalienability" of human capital, investigated the link between a firm's engagement in employee relations and the returns to shareholders around mergers and acquisitions (M&As). **Henry Hansmann** (Yale Law School) commented on; 1) the definition of "inalienability" and; 2) methodology (CARs on merger announcements) and questioned the merger data adopted. Discussions continued to; 1) shareholder value and endogeneity issue; 2) possibility of using other data; 3) labor restructuring effects and; 4) "inalienability" and firm-specific investment.

15. Team Stability and Performance: Evidence from Private Equity

Francesca Cornelli (London Business School) examined the relationship between team turnover and firm performance studying the private equity industry. **Ronald Gilson** commented on; 1) competition for talent; 2) asymmetry of information; 3) incentives of private equity (PE) manager. Discussions continued to; 1) homogeneity; 2) data availability; 3) can a PE distinguish who should be fired or not; 4) methodology (controlling the change of the size of the term).