Synthesis Report

Sixth International Research Conference on Corporate Governance in Emerging Markets

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by Melsa Ararat, Stijn Claessens, and B. Burcin Yurtoglu

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Sixth International Research Conference on Corporate Governance in Emerging Markets

Background

The Sixth International Conference on Corporate Governance in Emerging Markets is part of a series of academic events organized by the Emerging Markets Corporate Governance Network (EMCGN). The IFC Corporate Governance Group endorses and supports the Network, which was first convened by **Stijn Claessens** in 2001. The biannual academic conferences focus on themes that are important to academics and practitioners interested in the role and effect of corporate governance in emerging markets. The Sixth Conference was co-organized by EMCGN and the Institute of Governance and Organizational Responsibility at Groningen University and hosted by de Nederlandsche Bank, with support from NN Investment Partners and European Investment Bank.

In keeping with the Network's tradition, the conference included a keynote lecture and a plenary session where two papers were presented. The keynote speaker was **Simeon Djankov**, a member of the Network's Scientific Committee. Presenters of the two papers were **Asaf Hamdani** and **Yishay Yafeh,** also a member of the Network's Scientific Committee. The conference concluded with a panel discussion on a contested subject by governance practitioners: **Implementing E (environmental)**, **S (social)**, **and G (governance) in Emerging Markets.**

The conference included 23 papers by scholars from 19 countries. The papers, presented in seven thematically different sessions, explored recurring issues in corporate governance research, such as governance in family-controlled firms, governance of financial institutions, and related-party transactions in controlled firms, as well as less studied topics, such as the effect of board gender quotas on firm performance in an emerging-market context.

Day One

Following opening remarks from Conference **Chair Kees van Veen** (University of Groningen) and **Stijn Claessens** (EMCGN Chair, Bank for International Settlements, and University of Amsterdam), the latter presented the evolution of the Emerging Markets Corporate Governance Research Network. He reminded attendees that the Network's primary purpose is to stimulate research on corporate governance in emerging markets as well as in transition and developing countries, with the objective of raising the academic quality of research, fostering international exchange among scholars in all regions, and enhancing the dialogue of research-

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ers with policymakers and the private sector. Addressing areas that require continuing attention from researchers, Claessens listed the need for careful documentation of ownership and control structures and their effects on firms' performance and valuation; the value of analysis on the composition and role of the board of directors, including the effects of dominant shareholders; greater attention to CSR (corporate social responsibility) issues; and the need to assess the roles of legal structure and enforcement when analyzing corporate governance around the world.

Plenary Session

Following the opening remarks, **Kees van Veen** chaired a plenary session for the presentation of two papers.

First plenary paper: "The Effect of Minority Veto Rights on Controller Tunneling," by Jesse M. Fried, Ehud Kamar, and Yishay Yafeh (presenter). A central challenge in the regulation of controlled firms is curbing controller tunneling. Because independent directors and fiduciary duties are widely seen as not up to this task, a number of jurisdictions have given minority shareholders veto rights over these transactions. To assess the efficacy of these rights, they make use of a 2011 regulatory reform in Israel that gave the minority the ability to veto pay packages of controllers and their relatives ("controller executives"). The authors found that the reform curbed the pay of controller executives and led some to quit their jobs or work for free in circumstances suggesting their pay would not have received approval. These findings suggest that minority veto rights can help curb controller tunneling.

Discussant **Stijn Claessens** acknowledged the importance of the research question and highlighted both the strength of the analysis and its relevance for policymakers. At the same time, he suggested that there be greater focus on a broader picture, since executive pay constitutes only one form of tunneling, and since controllers may switch to other tunneling mechanisms after the reform.

Second plenary paper: "The Agency Costs of Controlling Shareholders," by Lucian A. Bebchuk, and Assaf Hamdani (presenter). The authors offer a new understanding of the agency costs underlying controlled companies. They challenge the pervasive view that self-dealing is the principal channel for minority expropriation, and they identify a new channel of value diversion, which they label *indirect tunneling*, and set it apart from other forms of value diversion. They also show that insiders' ownership of other significant businesses—and not just the wedge between their cash flow rights and voting rights—is an important source of agency costs. Furthermore, they argue that indirect tunneling cannot be eliminated by adopting new rules against self-dealing or by strengthening the enforcement of existing rules. Thus they reject the common view that a strong anti-self-dealing regime is sufficient to protect investors from value diversion. Lawmakers interested in limiting insiders' private benefits of control should consider other measures: expanding disclosure rules or structural remedies, such as limiting the scope of business groups.

Discussant **Julan Du** (Chinese University of Hong Kong) addressed the relevance and implications of this paper from two perspectives: 1) the rising popularity of dual-class share structure in emerging markets and 2) state capitalism and relationship-based business models in some emerging markets and particularly in China. The reciprocal favor exchanges that contribute to indirect tunneling through a third party could be a big concern when non-state-controlled companies need to build and maintain political connections. The externalization of benefits for this could be highly relevant.

Session A1 on "Family Governance," chaired by Halit Gonenc (University of Groningen)

First A1 paper: "Family Monitoring the Family," by Joseph P. H. Fan and Xin Yu (presenter). The authors examined how founding-family participation in firm ownership and management shapes related-party transactions in more than 1,200 Chinese publicly traded private sector firms. They found that firms with more family-member participation engage in fewer abnormal related-party transactions that are suspicious with regard to expropriation; this suggests a potential monitoring role by a firm's founding family members. Such effects are stronger in stocks that are thinly traded and followed by few analysts, which suggests an effect of family governance substituting for weak market governance. Moreover, seniority and closeness of family relationships matter to the strength of family monitoring: family monitoring effects are stronger when more senior or distantly related family members participate in the firms and weaker when more children of the founders participate. The role of family members as owners and/or managers also matters: shareholding family managers are associated with fewer suspicious related-party transactions than are family managers without shares and family owners who do not act as managers. Overall, this study's evidence supports the view that the checks and balances among founding family members benefit public investors, particularly when market governance is weak in enforcing investor rights.

Discussant **Burcin Yurtoglu** (WHU), while questioning the validity of some of the measures used and suggesting some more powerful tests, argued that the paper makes an important contribution to a better understanding of the role of family members in family firms' governance.

Second A1 paper: "Family Firms, Directors' Remuneration, Ownership Concentration, Expropriation, and Firm Value: Evidence from Malaysia," by Liew Chee Yoong (presenter), Young Kyung-Ko, Song Bee Lian, and Saraniah Thechina Murthy. The authors studied the effects of directors' remuneration on firm value and whether ownership concentration moderates these effects. They report that executive directors' remuneration increases firm value in both family and non-family firms and that this association is stronger in non-family firms as compared with family firms. They also found that non-executive directors' remuneration increases firm value in family firms; however, they found no evidence that this association is stronger in family firms than in non-family firms.

Discussant **Egle Karmaziene** (University of Groningen) suggested that endogeneity issues should be considered further in the paper and that the paper could benefit from a more focused approach. He also suggested that it would be useful for the authors to discuss the external validity of their results.

Third A1 paper: "Women on Boards and Performance of Family Firms: Evidence from India," by Jayati Sarkar (presenter) and Ekta Selarka. The authors analyzed the effect of women directors on the performance of family firms. They used a case study of a firm in India, which provides an ideal setting for investigating this topic, as the presence of family firms is pervasive there and, since 2013, India has instituted gender quotas on corporate boards. Using a dataset of 10,218 firm-year observations from 2005 to 2014, which spans the pre-quota and post-quota years, they found robust evidence that women directors on corporate boards have a positive impact on firm value, and that this effect increases with the number of women directors on the board. However, the positive effect of gender diversity on firm performance weakens with the extent to which the family exerts control through occupying key management positions on the board. Moreover, women directors affiliated with the family have no significant effect on firm value, whereas independent women directors do. Turning to accounting profitability, the results are somewhat different: women directors have a positive impact on profitability, with the positive effect driven by independent women directors; however, the effect does not vary with the extent of family control. Taken together, this evidence suggests that, although gender diversity on corporate boards may positively influence firm performance in family firms in general, the extent of family control can have a significant bearing on this relationship.

Discussant **Melsa Ararat** (Sabanci University) suggested that the authors could focus the inquiry on the outcome of gender quotas in India and simplify the presentation of their empirical analysis by highlighting a smaller subset of them relevant to the research focus and noted the valuable contribution of studying quota effects in emerging economies.

Session A2 on "Governance and Finance," chaired by Stijn Claessens

First A2 paper: "Predicting the Risk of Financial Distress using Corporate Governance Measures," by Zhiyong Li (presenter), Jonathan Crook, Galina Andreeva, and Ying Tang. Using a dynamic discrete-time survival analysis model, the authors sought to contribute to the literature on financial stability by assessing the effectiveness of aspects of corporate governance for predicting financial distress. The model includes various corporate governance measures, financial ratios, and macroeconomic variables in a panel data structure over a 10-year period. Furthermore, the paper addresses the association of government ownership with the risk of financial distress in China. The results suggest that, although corporate governance alone is not sufficient to accurately predict financial distress and hence financial stability, it adds to the predictive power of financial ratios and macroeconomic factors. In addition, the model provides insights into the role of state ownership, independent directors, and some personal characteristics of the chair/CEO.

Discussant **Ralph De Haas** (EBRD) suggested that the authors try to be explicit about the causality between corporate governance and financial distress and that they include in their models the channels through which the causal relation works.

Second A2 paper: "Corporate Governance in European Banks: Institutional Investors Follow, Returns Don't," by Anastasia Stepanova and Olga Ivantsova (presenter). The paper focuses on potential reverse causality between good governance and institutional ownership. Using data from 172 European public banks over 2004–2016, the authors studied the relationship between institutional ownership and corporate governance—a useful setting because of the better disclosure practices and special attention to the governance in banking. They show that institutional investors prefer to invest in banks that already have "good" corporate governance. Although their primary target is supposed to be return generation, market returns do not always follow "good" corporate governance and sometimes even do quite the opposite.

Discussant **Gunseli Tumer** (Vrije Universiteit Amsterdam) mentioned that the paper would benefit from improving the methodological approach in terms of identification. She noted that the paper tackles an important issue in corporate governance, namely investment choices and investment returns, and the authors should reconsider the definition of good corporate governance and include further discussion of the tradeoffs mentioned in the paper to strengthen the motivation.

Third A2 paper: "The Effects of Private Equity on Operational Efficiency and Market Power," by Markus Biesinger (presenter), Çağatay Bircan, and Alexander Ljungqvist. The authors studied how private equity (PE) firms generate returns for their investors, by estimating the effects of PE funding on portfolio companies' operational efficiency and market power. They suggest that the paper confirms prior findings that PE funding leads to operational efficiency: both labor productivity and total factor productivity improve as PE-backed companies ramp up investment, employment, and sales. Using detailed confidential information obtained from inside PE firms, the authors show that the PE firms in their sample push for operational improvements, and that these improvements are the main drivers of the returns investors receive from PE funds. They note that there is no evidence that PE-backed companies increase their market power. In fact, the PE-backed companies reduce their price markups by 6 percent on average.

Discussant **Ling Yew Hua Lynn** (Curtin University) noted that inferences made based on the applied methodology and sensitivity analysis are robust and valid, but it would be useful to include clarification on decision makers on private equity investment and an explanation on how private equity investment is performed.

Session B1 on "Agency Costs," chaired by Niels Hermes (University of Groningen)

First B1 paper: "Does Regulatory Reform of Cumulative Voting Improve Minority Shareholder Protection?" by Yinghui Chen and Julan Du (presenter). The study addressed whether cumulative voting (CV) can elevate board representation of large minority shareholders and improve corporate governance in the presence of dominant shareholders. Using hand-collected director-level data, the authors conducted a differences-in-differences analysis of China's CV reform. They found that non-controlling substantial shareholders cooperate in voting to raise their board representation, especially in a subsample whose top 10 shareholders are unrelated. CV enhances the "disinterestedness" of outside directors. CV-elected directors have better professional and educational qualifications. CV firms without related top-10 shareholders display higher Tobin's q and market-to-book ratio. However, the marginal improvements are insufficient to improve accounting performances.

Discussant **Xin Yu** (University of Queensland) noted that election of candidates through CV does not necessarily lead to general improvement for minority shareholders, because it could be a result of power balance between the controlling owners and non-controlling substantial shareholders. She suggested that the authors investigate whether CV implementation has any significant effects on corporate policies on tunneling, levels of executive compensation, and capital structure. She also suggested the authors examine earnings quality, which provides more direct evidence of improved corporate governance.

Second B1 paper: "The Inner Workings of the Board: Evidence from Emerging Markets," by Ralph De Haas (presenter), Daniel Ferreira, and Tom Kirchmaier. This paper presents the results from a survey of non-executive directors in emerging markets, which contains detailed information about the inner workings of corporate boards across a variety of institutional settings. The paper documents substantial variation in the structure and conduct of boards as well as in directors' perceptions of the local legal environment. Further analysis shows that directors who feel adequately empowered by local legislation are less likely to actively vote against board proposals. They also form boards that play a stronger role in the company's strategic decision making. This suggests that a supportive legal environment allows directors to focus more on their advisory role, as opposed to their monitoring role.

Discussant **Yishay Yafeh** (Hebrew University) highlighted the ambiguities in the literature on corporate boards and thus the importance of this research question. At the same time, he questioned how representative the sample was, the response rate to the survey, and the subjective nature of some of the survey questions. He also drew attention to the role that Russian firms play in the survey. Most importantly, he recommended that the authors focus more on how their survey results can inform the discourse on the role of boards in general.

Third B1 paper: "Ownership Concentration in the Gulf Cooperation Council," by Irma Martínez-García, Narjess Boubakri, Silvia Gómez-Ansón, and Rodrigo Basco (presenter). The authors reported on a study of ownership concentration and control of 692 firms listed on the Gulf Cooperation Council (GCC) stock markets over the period 2009–2015. The results show that ownership structure is highly concentrated in GCC corporations, with the large majority of the corporations controlled by the state or families. While cross-country differences exist, pyramid structures and holding companies as large shareholders are very common in the region, suggesting potential conflicts of interest between majority and minority shareholders. The authors also observed differences among financial and nonfinancial firms, with nonfinancial firms having more concentrated ownership structures. The state is the controlling shareholder in the vast majority of financial and nonfinancial firms, and the presence of the state as first among the largest shareholders is positively related to firm size as measured in market capitalization and total assets. There are also differences across countries: ownership concentration in financial firms from Bahrain, Saudi Arabia, and the United Arab Emirates is higher compared with those from Kuwait, Oman, and Qatar. The importance of families as largest shareholders varies significantly between countries, with Qatar exhibiting the lowest proportion and the United Arab Emirates the highest proportion of family ownership. Also, the importance of the state as the major shareholder is particularly visible in Bahrain, Qatar, and the United Arab Emirates. Pyramid ownership structures are common only in Kuwait, and cross-holdings structures are mainly used in the United Arab Emirates. These results suggest that the diversity of the institutional context across countries is related to particular characteristics in ownership concentration and shareholder identity.

Discussant **Yan Zhang** (Asian Development Bank Institute) commended the authors for the good dataset they used. Noting the higher concentration of ownership in oil-rich industries as shown in the findings, she suggested that the authors provide more information about the markets and regulations by citing prior literature and that they discuss the policy implications. She further noted that the paper needs more identifications on the relationship between ownership structure and country characteristics to specify causality beyond correlation.

Session B2 on "Managerial Entrenchment," chaired by Burcin Yurtoglu (WHU—Otto Beisheim School of Management)

First B2 paper: "Investment and Agency Motives of Corporate Philanthropy: Evidence from Anti-Dumping Initiations," by Shantanu Banerjeea, Aurélie Slechtena, and Swarnodeep Homroy (presenter). This paper analyzes the effect of exposure to foreign stakeholders on corporate philanthropy of domestic firms. The authors took an innovative approach, placing their research within the view of corporate philanthropy as *investment in long-term reputation* as opposed to the perspective of corporate philanthropy as *agency motive of private benefits for managers*. Using the method of natural experiment, they measured the effect of exogenous changes in exposure to consumer preference for corporate philanthropy and showed that expenditures for corporate philanthropy are in response to investment opportunities in the export market. The authors examined philanthropic expenses of Indian firms when competing with Chinese products that are subject to anti-dumping petitions. Conditional on exporting, Indian firms increase philanthropic expenses when anti-dumping is initiated by the United States and the European Union, but they do not do so when shocks originate from markets with low stakeholder preference for corporate philanthropy. Capital investments and R&D increase in response to such demand shocks, irrespective of their country of origin. Collectively, these results provide empirical evidence of investment motives for corporate philanthropy.

Discussant **Maria Aluchna** (Warsaw School of Economics) noted that spending on corporate philanthropy seems to be in reaction to investment opportunities in the export market, and if corporate philanthropy were driven mainly by agency motives, then increased spending on it would occur regardless of the origin of the shock and would be relatively stronger for unaffiliated firms.

Second B2 paper: "The Market Reaction to Changes in Disclosure of Related-Party Transaction Rules," by Vladimir Atanasov, Adrian Pop, and Diana Pop (presenter). The authors studied the valuation effects of the 2004 changes in Romanian related-party transactions (RPT) disclosure rules. Because the rule changes apply only to companies listed on the Bucharest Stock Exchange (BSE), companies traded on an alternative market (RASDAQ) served as a natural control group. They found that, immediately following the adoption of the rules, BSE firms experienced abnormal returns of 6 percent to 12 percent relative to matched RASDAQ firms with similar pre-reform characteristics. They also found that BSE firms experience a 20 percent to 25 percent increase in their Tobin's q in the three-year period following the reforms. Overall, the results suggest that the implementation of mandatory RPT disclosure rules can be effective in decreasing tunneling and increasing minority valuations in an emerging market.

Discussant **Bert Scholtens** (University of Groningen) suggested that the authors should clarify whether the law was unexpected, think about alternative explanations for performance differences, and discuss selection bias.

Third B2 paper: "Dividends and Underinvestment in China: Did Foreign Investors Export Liquidity during the Global Financial Crisis?" by John Goodell, Abhinav Goyal (presenter), and Wei Huang. The authors studied the international flow of liquidity between regions with different levels of temporary financial constraints. Examining approximately 18,000 firm-years from China, they found that foreign controlling ownership of Chinese firms was associated with extraordinary increase in dividend payouts during the 2007–2009 global financial crisi s, with concomitant underinvestment. This evidence is robust to a matched sample of domestically controlled firms selected using propensity-score matching, as well as to an alternative control sample of firms invested in by Qualified Foreign Institutional Investors. The authors interpret these results as not due to a general clientele effect, but rather suggesting that foreign controlling shareholders in China acted specifically to expropriate (export) liquidity through dividends.

Discussant **Marc Deloof** (University of Antwerp) suggested that the hypothesis development could be tightened up by differentiating foreign investors from foreign controllers and exploring the heterogeneity in controlling owners.

Keynote Address: "The Future of Work in Emerging Markets: Governance and Finance Challenges," by Simeon Djankov (Executive Director, Financial Markets Group Research Center, LSE; former Minister of Finance, Bulgaria)

Using results from the forthcoming *World Development Report* (2019), Simeon Djankov focused on how the nature of work is changing as a result of advances in technology. While technology improves overall living standards, he said, the process can be disruptive, and a new social contract is needed to smooth the transition and guard against rising inequality. As a first priority, significant investments in hu-

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man capital throughout a person's lifecycle are vital to this effort. If workers are to stay competitive against machines, they need to be able to retool existing skills or be better trained from the start. In addition to investments in human capital, the changing nature of work demands updates to social protection systems. Traditional provisions of social protection—based on steady wage employment, clear definitions of employers and employees, and a fixed point of retirement—become increasingly obsolete. Improved private sector policies to encourage start-up activity and competition can also help countries compete in the digital age.

Djankov also said that governments will need additional revenues to fund the investments demanded by the changing nature of work. Governments can create fiscal space through a mix of additional revenues from existing taxes (increases in rates or widening of the tax base), the introduction of new taxes, and improvements in tax administration.

Day Two

The second day of the conference started with two parallel sessions.

Session C1 on "Family Control," chaired by Yishay Yafeh (Hebrew University)

First C1 paper: "Family Directors and Independent Directors of Malaysian Public-Listed Family Firms: From the Perspective of Corporate Acquisitions and its Policy Implications," by Ling Yew Hua Lynn (presenter), John Evans and Md Shibley Sadique. The paper presented an analysis of the effect of family directors and independent directors on family firms' value, within the context of corporate acquisitions in Malaysia. Based on their study of a sample of 267 corporate acquisitions made by publicly listed Malaysian family firms over the 10-year period of 2002–2011, the authors suggest that a balance of power between family representatives and independent directors on the board should be encouraged as one of the best practices of corporate governance in Malaysian family firms. This recommendation is based on findings that include a positive valuation effect of family directors on the board (relative to independent directors) to family firm value.

Discussant **Zhiyong Li** (School of Finance, Southwestern University of Finance and Economics) applauded the researchers for the good application of the event study and suggested that the authors should try to understand and explain the mechanisms behind the nonlinear relationship between the ratio of family directors to independent directors and valuation, beyond intitutions.

Second C1 paper: "Performance and Abilities of Family-Member CEOs in a Context of Formal Institutional Weakness," by Karen Watkins-Fassler (presenter), Guadalupe del Carmen Briano-Turrent, and Lázaro Rodríguez-Ariza. The authors studied the relationship between the abilities of family-member CEOs and the financial performance of listed family companies. Using a sample of nonfinancial family firms listed on the Mexican Stock Exchange during the period 2001–2014, they found that better corporate financial outcomes are achieved with external CEOs rather than with family-member CEOs, even when their abilities, specifically experience and academic background, are similar. They also found that the inverse relationship between family-member CEOs and financial performance is moderated when the CEOs had a strong business-related academic background that enabled them to acquire the skills and greater perspective needed to cope with the higher transaction costs and increased business risks present in environments of formal institutional weakness, as is the case in Mexico.

Discussant **Olga Ivantsova** (National Research University Higher School of Economics) raised the question of whether the better results of the firms with the external CEOs could be explained by their greater motivation to keep their position and reputation. Family-member CEOs would not lose their position in the family (and probably their share in the business) even in the event of bad results. She suggested that it would be interesting to compare the results with data from other countries where family-ownership was also very strong.

Third C1 paper: "Family Control and Firm Innovation: Evidence from the Chinese SME Board," by Jingjing Xu and Yan Zhang (presenter). The authors investigated the impact of family control on firm-level innovation, using data from the Chinese SME (small and medium enterprise) Board. They report that family firms invest less in innovation compared with other firms in the Chinese SME Board. Further, family-member CEOs have no significant effect on innovation, whereas family dominance in the board of directors shows a significant negative influence on a firm's innovation, and this effect is stronger when the firm's founder is in a key position, or the family's cash flow right in the firm is higher.

Discussant **Liew Chee Yoong** (SEGi University) suggested that there's a need for clarification on the methodology and further refinement of the theoretical underpinning. He also suggested that the authors should think about and discuss the implications of their findings for family firm governance in general.

Session C2 on "Ownership Structure," chaired by by Melsa Ararat (Sabanci University Corporate Governance Forum)

This session's three papers looked at different aspects of ownership structure, each with a different geographic focus.

First C2 paper: "Investigations of the European Frontier Markets: Ownership Composition and Financial Performance," by R. M. Ammar Zahid (presenter), Alina Taran, and Can Simga-Mugan. The authors studied the link between ownership composition and financial performance of listed companies from European frontier markets. They considered three aspects of ownership composition: concentration, diversity, and identity (foreign ownership, local ownership, state ownership, and free float). In a sample of 94 indexed companies from six European frontier markets during 2005–2016, a panel data analysis suggests that ownership concentration has a significant positive impact on the market performance of the firms. Ownership diversity and market performance are negatively associated. Moreover, the authors found that local ownership has a significantly positive relationship with the firms' market performance.

Discussant **Naciye Sekerci** (Utrecht University School of Economics) suggested that the authors should discuss why the relationship between ownership and firm performance would be different in frontier markets. She also suggested that, if concentration of ownership is a response to weak institutional environment, a conditional analysis may be useful.

Second C2 paper: "Pyramidal Ownership and Company Value. The Evidence from Polish Listed Companies," by Maria Aluchna (presenter), Tomasz Kuszewski, and Tomasz Zatoń. The authors investigated the effects of pyramidal structures on company value in Poland, noting that the link between pyramidal ownership and firm value is complex. Using a sample of 181 nonfinancial companies listed in years 2010–2014 on the Warsaw Stock Exchange, the authors examined the link between the control by a pyramid and firm value measured by Tobin's q. Specifically, the empirical analysis focused on the effect of pyramidal ownership by a majority owner as well as pyramidal ownership by a shareholder coalition. The results indicate that the use of pyramids is associated with lower q. In addition, while the adoption of a pyramid by a coalition of owners destroys firm value, the adoption of a pyramid by a majority shareholder increases q. The results show that, while pyramidal ownership by a shareholder coalition strengthens the separation of cash flow and control rights and decreases firm value, concentrated ownership adds to the monitoring by dominant shareholders and offsets the negative effect, thus improving firm value.

Third C2 paper: "Internal Capital Market Mergers in Weak External Market Environment: The Case of China," by Wei Huang and Abhinav Goyal and Hong Zhang (presenter). The authors set out to reevaluate the competing views of internal capital markets (ICMs), using China's Split-Share Structure Reform (SSSR) as a regulatory shock in the market to study merger deals completed within a dominant form of ICMs in China—related parties. They conducted a battery of difference-in-differences tests and documented a significant and positive treatment effect of the SSSR on related-party mergers and acquisitions (RPMA), as compared with non-RPMAs, measured by acquirers' cumulative abnormal returns around deal announcements. This treatment effect is particularly strong for deals undertaken by acquirers with low mutual-fund ownership, indicating benefits of the reform for weakly governed firms. Unlike prior findings that generally hold a negative view of related-party transactions, this study suggests how major policy reforms in emerging-market settings can reduce abusive related-party transactions associated with managerial entrenchment and tunneling, resulting in value gains through ICM transactions.

Discussant **Çağatay Bircan** (European Bank for Reconstruction and Development) suggested that the paper could be strengthened by providing a more in-depth discussion of how internal capital markets are leveraged to improve corporate governance following the SSSR. He noted that the underlying mechanisms are crucial to understanding how related-party transactions can be a positive tool in improving company performance.

Session C3 on "Corporate Board," chaired Julan Du (Chinese University of Hong Kong)

This session's three papers looked at different aspects of boards.

First C3 paper: "Efficacy and Consequences of Indian Board Gender Quota Law," by Shibashish Mukherjee (presenter) and Yasemin Karaibrahimoglu. The authors examined the efficacy and consequences of the Indian gender-quota provision of the Companies Act of 2013, a reform that prescribed at least one woman director per board for all listed firms. The authors argue that the new Quota Law was instrumental in impairing men-only homogeneity by significantly increasing gender diversity on Indian boards. They note that this has resulted in desirable board-configuration outcomes, such as a reduction in board size, higher qualifications, longer tenure, and more outside affiliations. They also found no decrease in long-run valuation and profitability. Interestingly, the paper reports a decline in reporting quality, despite an improvement in accounting quality, without any significant changes in the audit effort.

Discussant **Subrata Sarkar** (Indira Gandhi Institute of Development Research) suggested that the paper could be strengthened by incorporating the difference in the type of women directors that are added to the board, namely independent or gray. Many emerging economies, like India, are dominated by family firms, and companies often appoint family members to the board to comply with the regulations— perhaps not the intention of these regulations. Thus the analysis can look into family and non-family firms, and within each group the effect of independent and gray women directors.

Second C3 paper: "Board Interlocks with Shell Companies and Firm Value: Evidence from Director Disqualifications in India," by Ajay Bhaskarabhatla (presenter) and Rajani Singh. The paper exploits an unprecedented and unexpected public enforcement activity in India in September 2017 that led to the identification of 200,000 shell companies and 300,000 directors serving on their boards. By showing that board interlocks with these shells lower firm performance before interlocks are publicly disclosed, the paper implicates the quality of corporate governance at the interlocked firms rather than the decline in reputation that typically follows such disclosures. These results are robust across cross-sectional, instrumental variables, and longitudinal fixed-effects regression analyses.

Discussant **Jana Oehmichen** (University of Groningen) applauded the paper for its robustness and its highlighting of an interesting phenomenon. She suggested that the mechanism of the negative performance effect of board interlocks with shell companies can be further explored by making more use of the panel data and exploring the effect of other dependent variables.

Third C3 paper: "Non-Executive Directors: The Role of Risk Management in Controlling Capital Expenditures," by Anh Tho To (presenter), Yoshihisa Suzuki, Thi Thu Hong Ho, Thi Siem Tran, and Quoc Tuan Tran. Using panel data from 151 companies listed on the Vietnam Stock Exchange over 2007–2016, the authors examined the potential impact of board independence on firm risk. The paper shows that the relationship between the proportion of non-executive directors and stock return volatility may be moderated by the level of corporate capital expenditures. The authors report that the presence of non-executive directors on boards increases firm risk; however, the combination of non-executive ratio and capital expenditure ratio has a significant negative impact on firm risk. Firms with excessive capital expenditures tend to urge non-executive directors to increase supervision to reduce risks.

Discussant **Diana Pop** (University of Angers) noted that the empirical strategy does not address the causal inference between governance and outcome variables. She suggested that the authors should identify treated firms against a control group with firms that already had non-executive directors before the new ruling.

Special Session: "Science Meet Practice: Contemporary Investor Dilemmas When Implementing E, S, and G in Emerging Markets"

Rounding out the research conference were presentations/discussions with representatives of the European Investment Bank, NN-Investment Partners, and IFC.

Alexey Volynets (IFC) noted that the research on the performance outcome of sustainability is often of limited use for practitioners, because sustainability is operationalized by adding scores of environmental and social (E&S) and governance (G) factors together as the independent variable. He added that we need to see evidence that implementing ESG together, as an integrated approach, is better than addressing E&S and G separately. Based on IFC's experience, he said, the impact of its work on E&S factors with companies may remain limited if these issues are not on the agenda of the top management or the board. He concluded by asking the researchers to present evidence that an integrated approach to ESG relates to better performance.

Faryda Lindeman (NN Investments Partners) focused her presentation on being an active owner. She said shareholders need to use their influence to effectuate change, and engagement is a powerful and effective tool for this—whether collaborative or alone. She also noted that good research was necessary to flag any issues. She raised concerns that many commercial research providers offer backward-looking research, and often the data are outdated.

Francesca Maritati (EIB) explained EIB's holistic approach to ESG considerations, with a priority on climate and environment in infrastructure projects and a focus on SMEs and mid-cap firms. She noted that, although evidence shows that sustainable companies outperform others, based on ESG ratings, there is little insight into the tradeoff between E&S and G. She also encouraged the researchers to do more work on ESG considerations on the value chain.

Conclusions, by Stijn Claessens

This past decade has seen a great deal of progress in research on corporate governance in emerging markets. More and better data have become available, and there is progress in methodologies. Researchers have approached corporate governance from a wider angle, and research on emerging markets is now truly worldwide. However, there is still a need to assure that research continues to improve and that research on individual countries is better disseminated so as to share methodologies and, to the extent possible, generalize lessons. Also, while substantial reforms have taken place in many (developing) countries, the outcome of these reforms has not yet been fully captured by academic research. This is most efficiently done by building global links, encouraging research collaboration, and facilitating outreach.

The evolving structure and governance of the Network is aimed at these goals. The Network is now more of a joint undertaking of corporate governance research centers with internationally recognized scholars. The model is a virtual hub, with several regional nodes of key institutions involved in corporate governance research, which in turn connect to other centers in their respective regions. Corporate governance advocacy centers are expected to be collaborating with and supporting the research centers in the proposed model.

Some corporate governance topics could occupy more research and general analysis. Two topics this conference is highlighting are "The Role of Corporate Social Responsibility" and "Green Financing." These themes should be put under the general heading of corporate governance and stakeholders, which includes the role of corporate governance for environmental performance as well as other social concerns, including poverty and inequality, where more work would be very valuable.

Program Committee

The Institute for Governance and Organizational Responsibility (iGOR), Faculty of Economics and Business, University of Groningen:

Halit Gonenc

Niels Hermes

Kees van Veen, Conference Chair

Emerging Markets Corporate Governance Research Network (EMCGN):

Melsa Ararat (IFC and Sabanci University Corporate Governance Forum)

Stijn Claessens, EMCGN Chair (Bank for International Settlements and University of Amsterdam)

Burcin Yurtoglu (WHU—Otto Beisheim School of Management)

Conference Program

Day One: Thursday, July 5, 2018

Opening Remarks. Conference Chair: Kees van Veen, University of Groningen; and Stijn Claessens, EMCGN Chair, Bank for International Settlements and University of Amsterdam

Plenary Session. Chair: Kees van Veen

The Effect of Minority Veto Rights on Controller Tunneling

Jesse M. Fried, Harvard Law School

Ehud Kamar, Tel Aviv University Buchmann Faculty of Law

Yishay Yafeh, Hebrew University

Discussant: Stijn Claessens, Bank for International Settlements and University of Amsterdam

The Agency Costs of Controlling Shareholders

Lucian A. Bebchuk, Harvard Law School

Assaf Hamdani, Tel Aviv University, Buchmann Faculty of Law

Discussant: Julan Du, Chinese University of Hong Kong

Session A1, Family Governance. Chair: Halit Gonenc, University of Groningen

Family Monitoring the Family

Joseph P. H. Fan, Chinese University of Hong Kong

Xin Yu, University of Queensland, Australia

Discussant: Burcin Yurtoglu, WHU—Otto Beisheim School of Management

Family Firms, Directors' Remuneration, Ownership Concentration, Expropriation, and Firm Value: Evidence from Malaysia

Liew Chee Yoong, SEGi University, Malaysia

Young Kyung-Ko, UNITAR International University, Malaysia

Song Bee Lian, SEGi University, Malaysia

Saraniah Thechina Murthy, SEGi University, Malaysia

Discussant: Egle Karmaziene, University of Groningen

Women on Boards and Performance of Family Firms: Evidence from India

Jayati Sarkar, Indira Gandhi Institute of Development Research

Ekta Selarka, Madras School of Economics

Discussant: Melsa Ararat, Sabanci University

Session A2, Governance and Finance. Chair: Stijn Claessens, Bank for International Settlements and University of Amsterdam

Predicting the Risk of Financial Distress using Corporate Governance Measures

Zhiyong Li, School of Finance, Southwestern University of Finance and Economics, China

Jonathan Crook, Credit Research Centre, Business School, University of Edinburgh, United Kingdom

Galina Andreeva, Credit Research Centre, Business School, University of Edinburgh, United Kingdom

Ying Tang, School of Finance, Southwestern University of Finance and Economics, China

Discussant: Ralph De Haas, EBRD and Tilburg University

Corporate Governance in European Banks: Institutional Investors Follow, Returns Don't

Anastasia Stepanova, National Research University Higher School of Economics, Moscow, Russia

Olga Ivantsova, National Research University Higher School of Economics, Moscow, Russia

Discussant: Gunseli Tumer, VU Amsterdam

The Effects of Private Equity on Operational Efficiency and Market Power

Markus Biesinger, Darmstadt University of Technology

Çağatay Bircan, European Bank for Reconstruction and Development

Alexander Ljungqvist, Stern School of Business New York University

Discussant: Ling Yew Hua Lynn, Curtin University

Session B1, Agency Costs. Chair: Niels Hermes, University of Groningen

Does Regulatory Reform of Cumulative Voting Improve Minority Shareholder Protection?

Yinghui Chen, Zhongnan University of Economics and Law

Julan Du, Chinese University of Hong Kong

Discussant: Xin Yu, University of Queensland, Australia

The Inner Workings of the Board: Evidence from Emerging Markets

Ralph De Haas, EBRD and Tilburg University

Daniel Ferreira, London School of Economics

Tom Kirchmaier, London School of Economics

Discussant: Yishay Yafeh, Hebrew University

Ownership Concentration in the Gulf Cooperation Council

Irma Martínez-García, University of Oviedo

Narjess Boubakri, American University of Sharjah

Silvia Gómez-Ansón, University of Oviedo

Rodrigo Basco, American University of Sharjah

Discussant: Yan Zhang, Asian Development Bank Institute, Japan

Session B2, Managerial Entrenchment. Chair: Burcin Yurtoglu, WHU—Otto Beisheim School of Management

Investment and Agency Motives of Corporate Philanthropy: Evidence from Anti-Dumping Initiations

Shantanu Banerjeea, Lancaster University, United Kingdom

Aurélie Slechtena, Lancaster University, United Kingdom

Swarnodeep Homroy, University of Groningen

Discussant: Maria Aluchna, Warsaw School of Economics, Poland

The Market Reaction to Changes in Disclosure of Related-Party Transaction Rules

Vladimir Atanasov, College of William and Mary

Adrian Pop, University of Nantes

Diana Pop, University of Angers

Discussant: Bert Scholtens, University of Groningen

Dividends and Underinvestment in China: Did Foreign Investors Export Liquidity during the Global Financial Crisis?

John Goodell, University of Akron, United States

Abhinav Goyal, University of Liverpool, United Kingdom

Wei Huang, University of Nottingham, Ningbo, China

Discussant: Marc Deloof, University of Antwerp

Keynote Address. The Future of Work in Emerging Markets: Governance and Finance Challenges

Simeon Djankov, Executive Director, Financial Markets Group Research Center, London School of Economics; former Minister of Finance, Bulgaria.

Introduced by Stijn Claessens, Bank for International Settlements and University of Amsterdam

Day Two: Friday, July 6, 2018

Session C1, Family Control. Chair: Yishay Yafeh, Hebrew University

Family Directors and Independent Directors of Malaysian Public-Listed Family Firms: From the Perspective of Corporate Acquisitions and its Policy Implications

Ling Yew Hua Lynn, Curtin University

John Evans, Lynn,

Md Shibley Sadique, University of Rajshahi, Bangladesh

Discussant: Zhiyong Li, School of Finance, Southwestern University of Finance and Economics, China

Performance and Abilities of Family-Member CEOs in a Context of Formal Institutional Weakness

Karen Watkins-Fassler, Universidad de Granada, España

Guadalupe del Carmen Briano-Turrent, Universidad de Granada, España

Lázaro Rodríguez-Ariza, Universidad de Granada, España

Discussant: Olga Ivantsova, National Research University Higher School of Economics, Moscow, Russia

Family Control and Firm Innovation: Evidence from Chinese SME Board

Jingjing Xu, East China Normal University

Yan Zhang, Asian Development Bank Institute, Japan

Discussant: Liew Chee Yoong, SEGi University, Malaysia

Session C2, Ownership Structure. Chair: Melsa Ararat, Sabanci University

Investigations of the European Frontier Markets: Ownership Composition and Financial Performance

R. M. Ammar Zahid, Izmir University of Economics, Turkey

Alina Taran, Izmir University of Economics, Turkey

Can Simga-Mugan, Izmir University of Economics, Turkey

Discussant: Naciye Sekerci, Utrecht University School of Economics

Pyramidal Ownership and Company Value. The Evidence from Polish Listed Companies

Maria Aluchna, Warsaw School of Economics, Poland

Tomasz Kuszewski, Warsaw School of Economics, Poland

Tomasz Zatoń, Warsaw School of Economics, Poland

Discussant: Abhinav Goyal, University of Liverpool, United Kingdom

Internal Capital Market Mergers in Weak External Market Environment: The Case of China

Wei Huang, University of Nottingham—Ningbo China

Abhinav Goyal, University of Liverpool, United Kingdom

Hong Zhang, University of Nottingham—Ningbo China

Discussant: Çağatay Bircan, European Bank for Reconstruction and Development

Session C3, Corporate Board. Chair: Julan Du, Chinese University of Hong Kong

Efficacy and Consequences of Indian Board Gender Quota Law

Shibashish Mukherjee, University of Groningen

Yasemin Karaibrahimoglu, University of Groningen

Discussant: Subrata Sarkar, Indira Gandhi Institute of Development Research

Board Interlocks with Shell Companies and Firm Value: Evidence from Director Disqualifications in India

Ajay Bhaskarabhatla, Erasmus School of Economics

Rajani Singh, Indian Institute of Management Bangalore

Discussant: Jana Oehmichen (University of Groningen)

Non-Executive Directors: The Role of Risk Management in Controlling Capital Expenditures

Anh Tho To, Hiroshima University, Japan; University of Finance, Vietnam

Yoshihisa Suzuki, Hiroshima University, Japan,

Thi Thu Hong Ho, University of Finance, Vietnam

Thi Siem Tran, University of Finance, Vietnam

Quoc Tuan Tran, University of Finance, Vietnam

Discussant: Diana Pop, University of Anger

Special Session, Science Meet Practice: Contemporary Investor Dilemmas When Implementing E, S, and G in Emerging Markets

Alexey Volynets (IFC)

Faryda Lindeman (NN Investment Partners)

Francesca Maritati (EIB)

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