

APRIL 18-19, 2013 – PARIS

REPORT

International Conference “Governance & Control in Finance & Banking: A New Paradigm for Risk & Performance”

April 18-19, 2013 – Paris



ISTEC – Virtus Interpress
International Center for Banking and Corporate Governance



Professor Rémi Jardat , co-chair of the conference organizing committee



Professor François Legros, Director in Charge of Pedagogy, ISTE



Professor Alex Kostyuk, co-chair of the conference organizing committee

the conference topics to the current global financial trends, greeted participants and wished them fruitful work so that they were successful in contributing to the solution of important financial issues and expressed their hopes that the conference should become efficient platform for the creation of new partnerships and contacts. Professor **Alex Kostyuk**, co-chair of the conference expressed his gratitude to all participants for their valuable contribution to the conference procedures and emphasized the importance of the strong research network that forms between participants during such events.

International conference "Governance & Control in Finance & Banking: A New Paradigm for Risk & Performance" was held in Paris, April 18, 2013 with the joint organizational participation of ISTE Paris, Publishing house "Virtus Interpress" and International Center for Banking and Corporate Governance. The idea of the conference has been developed by Professor **Alexander Kostyuk** and Professor **Rémi Jardat** in 2012 and was approved during the negotiations at the international conference "Improving Financial Institutions: the Proper Balance between Regulation and Governance" that took place in Helsinki in April 2012.

The main purpose of the conference was to look for a new paradigm for risk and performance in finance and banking through governance and control procedures. The goal was to attract prominent experts in corporate governance and regulation from France and worldwide as contributors and participants to the conference.

The conference took place at ISTE on the picturesque bank of historical Canal Saint-Martin that was constructed by the order of Napoleon Bonaparte. The venue is a former historic industrial building and its original interior with uncovered communications supported the concept of scientific gathering aimed at the open-mindedness and exchange of research ideas without any barriers. Experts from 26 countries gathered in the capital of France to participate in the conference.

Event started with the welcome and opening remarks of the conference hosts from ISTE: professor **Rémi Jardat** Director of Research and professor **François Legros** Director in Charge of Pedagogy. They highlighted the relevance of the



Further the word was given to the first key-note speaker - **Mr Herve Bouzillard**, Managing Director at UBS Investment Bank, London, United Kingdom. He has direct experience of the management of large scale transformational projects in an Investment Banking / Front Office Trading context, involving multiple departments and working under tight regulatory / senior management scrutiny. His speech was devoted to the model risk management. According to Mr. Bouzillard historically, complexity concentrated in the nature of the transactions conducted by large and international financial institutions, and accounting standards and capital requirements were simpler in the past. Over the last decade we could see relative decline in trading complexity – largely driven by capital requirements and costs, but with mixed results. Simultaneously there is a significant increase in the sophistication of accounting standards and capital requirement calculations, primarily driven by a desire to reduce systemic risk from regulators and legislators. In such conditions boards of directors and senior management had to be more transparent and directly responsible.



Mr Herve Bouzillard, key-note speaker, the UK

Professor **Tom Berglund** from Hanken School of Economics, Director at Hanken Centre for Corporate Governance, Chairman at Nordic Corporate Governance Network (Finland) contributed with his speech to the topic of Incentives for Complexity in Financial Regulation. Professor Berglund divided these incentives into four groups: for business, administrators, independent experts and big financial institutions. He made a great historical overview of the growth in regulative complexity during several last decades and concluded that this indicator is expanding unreasonably fast in terms of quantity of regulative bodies and employees and size of the regulative acts and documents. Such trend potentially causes huge challenges in the financial sphere.



Professor Tom Berglund, key-note speaker, Finland

Next key-note speaker **Yvon Pesqueux** is professor at CNAM (Conservatoire National des Arts et Metiers), head of the Chair 'Developpement des Systemes d Organisation'. He is also Editor of Society and Business Review and a member of the SFM (Societe Francaise de Management) and member of the French Accounting Association, member of the European Accounting Association, Member of the European Business Ethics Network, member of Treasury of the International Federation of Sholarly Associations of Management. Professor Presqueux is also actively engaged in the editorial activity. He is a member of the Editorial boards at journals: "Comptabilité, Contrôle, Audit", "Sciences de Gestion", "Reason in Practice" and Member of the selection and evaluation committee of the reviews Business Digest and Réflexion Faite.



Professor Yvon Pesqueux, key-note speaker, France

Professor's Pesqueux speech was named "De-Institutionalizing the Institution and Institutionalizing the Organization: The Case of the Supervision of Banking Activities". He told that importance of management as a major reference addressed to societies is clearly raising the question of a de-institutionalization of the institution and, in mirror, of an institutionalization of the organization. Management should be considered as situated within an institutional frame, including its extension in terms of governance. It appears then as an object of institutionalization. This situation has to be analyzed in relation with the vague definition of the institution. It is necessary to explore the differences between institution and organization by drawing the outlines, which operate between both of these fields before applying this argumentation to the case of the supervision of banking activities.



Markus Stiglbauer, key-note speaker, Germany

Markus Stiglbauer, professor, Head of the Chair of Corporate Governance at the Friedrich-Alexander-Universität Erlangen-Nürnberg (Germany) finished series of key-note speeches. He is a member of German Association of University Professors, European Academy of Management and Association of University Professors of Management. Dr. Stiglbauer obtains a position of Editor in Chief at the "Global Journal of Business, Management and Accounting" and is an Editorial Board Member at the journal "Corporate Board: role, duties and composition". His speech was devoted to the gender issues in the boards of the companies in European Union. He has made an

overview of the gender issues legislation in European countries and provided arguments for and against gender diversity in the boards. At the same time he also fixed his attention on the other types of diversity e.g. age, education, nationality etc. The speaker argued that there is a lack of research fixing attention on complex issues of the diversity, but also pointed out on the possible problems that researchers could face in such projects. In conclusion professor Stiglbauer raised several important issues. Without more accurate information, board diversity not considered economically as a suitable measure to build up new trust after financial crisis. Regulation of board diversity by quota

disproportionately intervenes in companies' authority to staff their boards and neglecting companies' specific (economic) situation.

All key-note speeches received a great response from the audience and caused interesting discussions that proceeded during the coffee breaks and lunch.

The conference was then divided into five parallel sessions. The first parallel session "Corporate Governance In Financial Institutions: Risk Governance And Control", which was chaired by professor **Jacobus Young** from University of South Africa, highlighted interesting issues of risk-based



Conference participants during the plenary session

decision making, risk management, risk assessment and control. The second parallel session named "Corporate Governance In Financial Institutions: Board Of Directors Practices" with professor **Markus Stiglbauer** from University of Erlangen-Nürnberg (Germany) as a session chair included presentations with emphasis to different aspects of board activities. Session named "Corporate Control, Mergers & Acquisitions in Banking and Finance" was the third in the

program and was chaired by professor **Seppo Ikäheimo** from Aalto Business School (Finland). The fourth session Corporate Governance in Financial Institutions: General Issues chaired by professor **Laurence Borbalan** from ISTE (France) fixed attention on various relevant issues of banking activity. Professor **Bonnie Buchanan** from Seattle University (the USA) chaired fifth session of the conference named "Regulatory Issues in Banking and Finance" that covered current problematic points in central banking and financial regulation on the global scale.



Conference participants during the plenary session

Many interesting and recently demanded issues have been presented by participants. Example given, **Kameswari Peddada** from College of Business Management (India) presented principles and theory of risk assessment and management, specifically, definitions and categories of risk, steps of risk management process, risk assessment techniques, risk response strategies and, finally, explained regulatory & policy environment in India. Professor Peddada concluded that risk measurement and assessment should lead to better decisions on the one hand, and on the other hand, good risk management is a good management.

Edmundo Lizarzaburu Bolaños from ESAN University (Peru) introduced the results of the research with the analysis of the impact of CSR strategies on risk management in case of reputational risk. He described the Peruvian financial system, gave the complex definition of CSR and its relationship with strategy and interest groups, identified risk management concept and deeply considered on the definition of reputational risk.

Fumiko Takeda from University of Tokyo (Japan) examined how an auditor's reputation for audit quality affects the selection of new auditors in a unique setting and investigated forced auditor switches after the collapse of ChuoAoyama and its successor, Misuzu, in a low litigation country – Japan. Professor Takeda and her co-authors found that when changing auditors, the clients were more likely to switch to the other Big 4 audit firms or to Aarata than to Non-Big 4 auditors or Misuzu that former ChuoAoyama clients concerned about reputation for audit quality tended to change auditors, when statutory auditing services of ChuoAoyama were suspended.

Mohamed Sherif from Heriot-Watt University (the UK) underlined the impact of company-specific and external factors on corporate risk taking on the example of Egyptian insurance companies over the period from 2006 to 2011. The authors have found that differences in company size, interest rate level and economic development affect variations in stock prices. The analysis also highlights differences between the life and non-life insurers, with the non-life insurers exhibiting a higher level of risk (market and premium) and board independence.

Kim Trottier from Simon Fraser University (Canada), who estimated the role of accounting in the 2008 banking crisis. Professor concluded that accounting played a non-trivial role in the recent crisis and accounting numbers needed to improve so they can underpin regulatory reform.



Conference participants during coffee break



Professor Edmundo Lizarzaburu Bolaños, paper presenter. Peru



Conference participants during working of parallel sessions



Professor Kim Trottier, paper presenter, Canada



Professor Themistokles Lazarides, paper presenter, Greece

Themistokles Lazarides from Technological Education Institute of Western Macedonia, Greece talked about corporate scandals in banking. He has made an overview of the Greek banking system, accounting standards and corporate governance in banking sector with the particular attention to cases took place. By his point of view corporate collapses or failures do not happened in an instance. Usually the causes of the collapse or failure have existed long time before the collapse. Corporate culture, ethics, incentives failure, organizational and governance failure, etc. are some of the main reasons. Policy making failures and the other causes may coexist. Bank scandals cause a huge cost to the taxpayers. They are failures of business ethics, legislation, regulation, auditing and monitoring authorities. The main question is: should banks be bailed out by tax payers? He has also paid attention to the current reforms in Cyprus banking sector.



Professor Barbara Monda, paper presenter, Italy

Barbara Monda from Italian Politecnico di Milano presented results of her research made in cooperation with Marco Giorgino. They undertook an empirical analysis in five countries to find correlation between corporate governance and shareholders value. For this purposes authors designed a multi-dimensional index to measure the quality of corporate governance systems adopted by firms. By analyzing a sample of 100 large companies listed on the main stock markets in five different countries over three years (2009-2011), they confirm the widespread hypothesis of the existence of a positive and statistically significant relationship between corporate governance, as measured by a subset of 12 variables, and firm value. Barbara also shared some ideas for future research that were supported by session participants.



Dr Udo Braendle from UAE and Yaroslav Mozgoviy from Ukraine, paper presenters

Udo Braendle from America University in Dubai (U.A.E.) and **Yaroslav Mozgoviy** from Ukrainian Academy of Banking of the National Bank of Ukraine argued that CSR initiatives of the companies have to be and indeed are beneficial not only for the society but for the organization itself. To prove their point of view they have conducted a meta-analysis of 135 previous studies on the link between CSR and FP. During the analysis we found out that absolute

majority of studies indicated positive correlation. On the other hand only 10% of papers directed their attention separately to the banks. Moreover these studies are not homogenous and do not provide clear answer on the link between CSR and FP in banks. These brought a perspective for future research in the sphere. Authors also fixed their attention on the codes of CSR that can be used as in favor of companies so for the benefits of the regulators and other stakeholders especially in such sophisticated industry depending on reputation as banking.



Mrs Miriam Garnier, paper presenter, France

to maximize profits but to jointly manage a business. With this in mind, assuming a stakeholder-oriented behavior of cooperative banks, they addresses whether cooperative banks consider multiple stakeholder values and take a sustainable governance approach. They conducted a content analysis of the annual reports of German cooperative banks, with



Conference discussions

(France) presented to the audience his view on the new central bank doctrine and central's bank doctrine in the 21st century. After a fundamental overview and analysis of the state of arts in the central banking before and after the financial crisis presenter fixed his attention on a new theory of the modern central banking switching to new objectives, new powers and new governance issues with respect to financial regulation. He concluded that regulative independency must be reinforced, inflation must be defined: consumer inflation and asset inflation, supervision must be enlarged,



Conference participants during parallel session 3

and selection of directors must be diversified and improved.

The fruitful and interesting conference day was concluded by the pleasant dinner at traditional French restaurant Le Robinet d'Or. On the second conference day conference participants had an opportunity to join the cruise on river Seine by the boat L'Evasion in calm relaxing atmosphere supported by the chill-out music performer and French cuisine.

Organizers of the conference would like to express their gratitude to all participants and supporters who joined our international network and visited Paris to make their deposit by high quality presentations, interesting discussions and feel unique atmosphere of the fruitful scientific gathering.

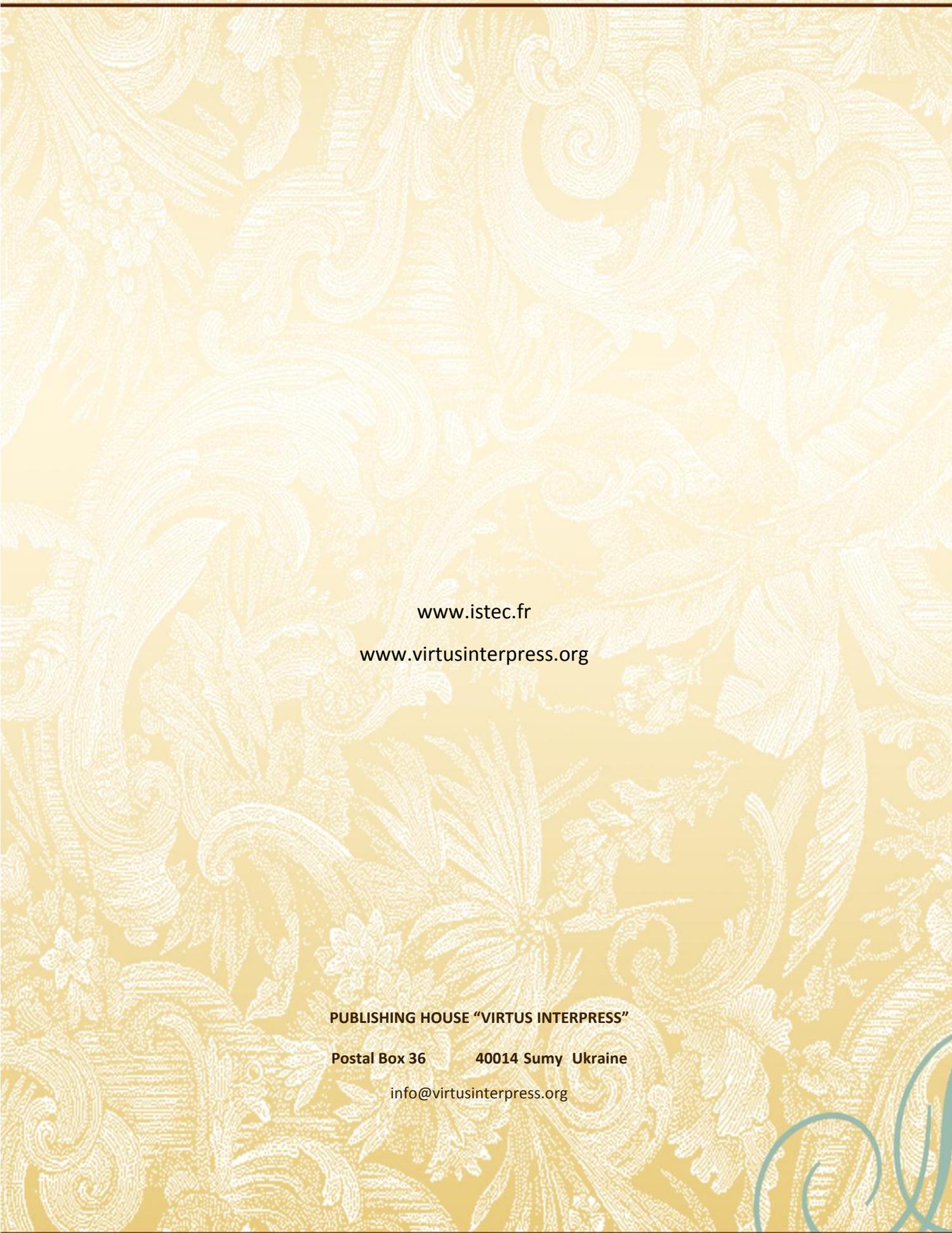
Miriam Garnier from Finance and Governance (France) presented the comparison of old and evolutionary governance paradigm for risk, performance and corporate control. Also Professor investigated the assumptions under two theories of bounded rationality and opportunism, found the weaknesses of this paradigm and highlighted recent measures to enhance corporate governance.

Anna-Lena Kuehn from University of Erlangen-Nuremberg (Germany) presented paper on values-based management in cooperative banks coauthored by Markus Stiglbauer and Ev Zschaeckel. According to the authors the main target of cooperative banks is not to maximize profits but to jointly manage a business. With this in mind, assuming a stakeholder-oriented behavior of cooperative banks, they addresses whether cooperative banks consider multiple stakeholder values and take a sustainable governance approach. They conducted a content analysis of the annual reports of German cooperative banks, with reference to two research questions: Are the basic principles and values of cooperatives optimally realized and communicated to external stakeholders? Can cooperative banks comply with the requirements of the triple bottom line, namely the economic, environmental and social responsibility? Authors found that cooperative banks do not effectively communicate their cooperative values and thus inadequately manage to demonstrate the implementation of their core values. Yet cooperative banks avail of a sustainable business model that offers the potential of sustainable business conduct.

Eric Pichet from Bordeaux Management School (France) presented to the audience his view on the new central bank doctrine and central's bank doctrine in the 21st century. After a fundamental overview and analysis of the state of arts in the central banking before and after the financial crisis presenter fixed his attention on a new theory of the modern central banking switching to new objectives, new powers and new governance issues with respect to financial regulation. He concluded that regulative independency must be reinforced, inflation must be defined: consumer inflation and asset inflation, supervision must be enlarged,

and selection of directors must be diversified and improved.

Barbara Chizzolini from Bocconi University (Italy) investigated banks' M&A operation and branching behaviour to infer costs and benefits of mergers and toughness of competition, as a result author has got the index of competition and value of traded branches in M&A operations. Professor Chizzolini concluded that the value of branches traded within a M&A operation is much higher than the value of non-traded branches due to further work needed, but the model predicts that the increase in profits of the new conglomerate far exceeds the price that the acquiring party has paid.



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