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Contents

PLENARY SESSION

WEAK CORPORATE GOVERNANCE AND $1.5 TRILLION OF INVESTMENT LOSSES

Hugh Grove, Mac Clouse

Weak corporate governance facilitated over $1.5 trillion in investment losses in the 21st Century in just 17 primarily U.S. public companies. Sir David Tweedy, the former chair of the International Accounting Standards Board, has commented: “The scandals that we have seen in recent years are often attributed to accounting although, in fact, I think the U.S. cases are corporate governance scandals involving fraud” (Tweedy, 2007). Thirteen prominent U.S. business leaders from industry, asset management firms, and an activist investment firm secretly worked for one year to develop corporate governance principles that would become a pathway for the future. The importance of implementing good corporate governance principles, as developed by this committee in 2016, is stressed by these $1.5 trillion of investment losses. This study has developed lessons learned from these scandals to reinforce these corporate governance principles as a pathway to avoid such malpractices in the future.

Keywords: Corporate Governance Principles; Market Capitalization; Weak Corporate Governance

CORPORATE GOVERNANCE, INFORMATION ASYMMETRY AND INVESTOR RELATIONS

Kobsidthi Silpachai

Banking crises have been around since there have been money as one of the instruments for exchange. Recent decades have seen a large share of banking scandals ending up in bankruptcies and investors losing their shirts. The 1995 saw the collapse of one of the oldest Merchant Bank – Barings Bank to close their doors forever as lax corporate governance (CG) and risk management allowed a senior trader to manage both front and back office, permitting the cover up of large accumulative of trading losses. The 1997 witnessed to more Asian banks closing their doors forever, with similar culprits of lax corporate governance and risk management contributing to their demise. In 2008, Lehman Brothers' collapse was symbolic of the similar culture of substandard discipline of corporate governance and risk management, leaving investors penniless and leading the United States to the worst economic recession since the Great Depression of the 1930s. Post crises, a renewed emphasis are placed on both external and internal corporate governance mechanisms to earn back investor confidence. External mechanisms like the "Dodd–Frank Wall Street Reform and Consumer Protection Act" came in response to the Lehman Brother crisis. Internal corporate governance mechanisms, Board of Directors and the role of Investor Relations Officers (IROs) received more attention. In this study, we look at a key dilemma of investors with respect to corporate governance, that is, information asymmetry and how IROs can help reduce such imbalances. We find evidence in the Thai banking sector that investors are willing to pay a premium for stock which offers better earnings visibility.

Keywords: Corporate Governance, Information Asymmetry, Investor Relations

THE ROLE OF RISK MANAGEMENT IN CORPORATE GOVERNANCE: GUIDELINES AND APPLICATIONS

Hugh Grove and Mac Clouse

Risk management should be a key concern of board members to enhance corporate governance in any organization. Eleven key numbers, ratios, and models were advocated in this study for risk management analyses, including an analysis of their variability with graphs. They are applied to Kaisa, a Chinese property developer, located in Shenzhen but incorporated with limited liability in the Cayman Islands. The importance of such risk management analyses was demonstrated in this study as Kaisa destroyed $12.9 billion in four different types of investments: $2.2 billion in stock market value, $0.3 billion in private equity investments, $2.5 billion in global bonds, and $7.9 billion in Chinese short-term and long-term debt. Thus, the use of key financial statement metrics, including fraud models and ratios, has been shown here to provide enhanced corporate governance with risk management guidelines and applications.

Keywords: Risk management, Corporate Governance, Corporate Board

BUSINESS RISK DISCLOSURE AND FIRM RISK: EVIDENCE FROM JAPAN

Hyonok Kima and Yukihiro Yasuda

We take advantage of institutional changes and its unique characteristics in Japan to empirically examine the effect of mandatory business risk disclosure. We find that there is a negative association between total risk and the mandatory business risk disclosure. This suggests that an increase in business risk disclosure contributes to reduce a firm's cost of capital, which is contrary to the results found in previous research. However, we also find that there is a positive relationship across firms and years after the inception between the amount of business risk disclosure and total risk, indicating that mandatory business risk disclosure has an impact on increasing investors' assessment of firms' risk. Although the two effects offset each other, the effects of enhanced disclosure of business risks on reducing the cost of capital exceed the effects on increasing the cost of capital.

Keywords: Mandatory Business Risk Disclosure; Total Risk; Cost of Capital

PARALLEL SESSION 1

THE GOAL OF CORPORATE RESCUE IN COMPANY LAW: A COMPARATIVE ANALYSIS

Anthony O Nwafor

The concept of corporate rescue lays emphasis on corporate sustainability than liquidation. This trend in corporate existence which featured in the United Kingdom Insolvency Act of 1986, Indian Sick Industrial Companies (Special Provisions) Act of 1985 (as replaced by Companies Act, 2013) has been adopted in the South African Companies Act of 2008 to replace the scheme of judicial management. In the old dispensation, the protection of the creditors of ailing company was preferred to the resuscitating of the company itself. The reverse is seemingly the case under the new arrangement. The study examines the relevant statutory provisions in the United Kingdom, India and South Africa and the attendant judicial interpretations of those provisions. It is contended that the powers of the directors to initiate business rescue proceedings under the law is a purely business decision, as such, the judicial attitude should follow the business judgment rule approach to such decision. The study further argues that while under the United Kingdom statutory provisions, the Insolvency Practitioner could pursue alternative goals of either rescuing the company or achieving better results for the creditors, the South African and Indian statutory provisions do not provide such alternatives for the Business Rescue Practitioner or the Administrator as the case may be and that the seeming ancillary purpose of crafting a fair deal for the stakeholders under the South African Companies Act's provision should be pursued within the context of the goal of restoring the company to business viability.

Keywords: Company, Business Rescue, Initiation, Goals, Directors, Stakeholders, Statute, Courts.

CORPORATE GOVERNANCE QUALITY, FIRM SIZE AND EARNINGS MANAGEMENT: EMPIRICAL STUDY ON INDONESIA STOCK EXCHANGE

Yulia Saftiana, Mukhtaruddin, Krisna Winda Putri and Ika Sasti Ferina

Earning management is manipulation that done by management in preparing financial statement in order to gain management advantage or to increase the firm value. Earning management can reduce the credibility of financial statement because it does not show the real earning value.

This research aims to identify the effect of good corporate governance (institutional ownership, managerial ownership, frequency of board meeting, frequency of audit committee meeting), firm size, and leverage on the earning management. Populations are the companies in LQ 45 index of Indonesia Stock Exchange period 2010-2014. Samples of the research were taken using purposive sampling method, and the variables of the research were tested using multiple linear regressions with a significance level of 5 percent.

The results of the research show that partially, only leverage has significant effect on earning management, whiles institutional ownership, managerial ownership, frequency of board meeting, frequency of audit committee meeting, and firm size have no significant effect on earning management, but simultaneously, all of the variables have significant effect on earning management. Limitations of the research are the variables only used 6 independet variables and 21 companies as samples of the research.

Keywords: Good Corporate Governance, Firm's Size, Leverage, Earning Management

THE LIMITS OF CORPORATE GOVERNANCE IN FINANCIAL SECTOR DEVELOPMENT IN EMERGING ECONOMIES

Shame Mugova

Emerging markets have common weaknesses in their financial market development. Financial development is one institutional force that shapes financing and governance of firms in emerging markets. Debt and equity are alternative governance instruments. Trade credit is part of debt and therefore should be treated as such in corporate governance. We use a fixed effect regression of financial sector development and trade credit of firms listed on the Johannesburg Stock Exchange to ascertain the impact of financial sector development on trade credit use. We also analyzed the Socially Responsible Index (SRI) which measures corporate governance. We find that good corporate governance practices do not result in substituting of trade credit despite its high implicit costs with bank loans for working capital financing.

Keywords: Corporate Governance, Trade Credit, Financial Sector Development, Implicit Cost

EMPIRICAL STUDY ON CORPORATE GOVERNANCE, TAX REFORMS AND TAX MANAGEMENT OF THE INDONESIAN LISTED COMPANIES

Taufan Maulamin and Dwi Pramaya Bhakti

This research aims to investigate corporate governance and tax reform with regards to ABTXD. ABTXD is a substitute for detection earning management and tax management. The research uses 117 samples from listed company in Indonesian Capital Market (BEI), except agriculture, mining, financial, and construction. Measurement of corporate governance performance is based on ASEAN CG Scorecards. The research has notions are: (1) most company practiced tax management together with earning management throughout declining company income tax rate in Indonesia, (2) tax management performed by company depends on tax facility (3) earning management practiced by company depends on financial condition of company, either they are in profit or loss (4) proactive approach executed by both board of commissioner and of director might be able to lessen company’s tax expense.

Keyword: Tax Reform, Earning Management, Tax Management, Corporate Governance, ASEAN CG Scorecards

TRANSFORMATION OF GOVERNANCE IN STATE-OWNED COMPANIES: THE CASE OF A DEVELOPING COUNTRY

Wellington B. Zondi

Purpose-The overall objective of the study was to assess over a three year period how five of the 21 strategic South African state-owned enterprises (SOEs) have performed with regards to corporate governance. The study does not only reveal the transgressions of the SOEs but it also reflects some of their good areas of performance.

Design/methodology/approach-Each state owned enterprise was assessed using the Organisation for Economic Co-operation and Development’s framework of best practice in governance of SOEs as a point of reference. Data was collected by reviewing the annual reports and newspaper citing over the past three years. The population of the study was made up of all the 21 SOEs in South Africa. The study used purposive sampling and the sample was obtained based on the discrete incidents of governance transgressions as reported in the data base containing English newspaper articles. These SOEs are viewed by the South African Government as the most critical in the provision of employment opportunities and stimulation of economic growth. These are SOEs that form the backbone of the economy since each one of them provides a critical service.

Findings-The South African Government is the major shareholder in these SOEs and in some cases it is the sole shareholder therefore political intervention will always be apparent and some transgressions is attributable to this intervention. The study revealed that while there was evidence of sound governance practices in some areas the South African SOEs are still faced with serious transgressions of corporate governance. The study showed that the SOEs still lacked leadership in a variety of areas such as expenditure management leadership, governance and risk management just a few to mention. The study

also confirmed that political affiliation is a major consideration when the board of directors of these SOEs are selected and appointed and that this at times leads to conflict between the chairman (who is often a political appointee) and Chief Executive Officer (who often comes from the private sector)which in turn creates internal governance problems. It is recommended that political affiliation must not be a consideration when board members are appointed since the SOEs are expected to operate like private companies, skill and experience must therefore be the main considerations.

Research limitations-Analysis of five of the 21 South African SOEs cannot provide a holistic view of how the rest of the SOEs performed over the past three years with regards to corporate governance. Some variables chosen were viewed by the researcher to be the most crucial and this is open to subjectivity.

Significance of the study-In South Africa there is a general rhetoric that all state owned enterprises lack good corporate governance yet the nature of that governance is not clearly understood and areas that need serious attention are not clearly understood or known. While this study is limited to only five of the 21 South African SOEs it nevertheless will provide some areas of focus against which their performance must be assessed.

Keywords: Role of the Board of Directors, Wasteful Expenditure, Best Practices in SOEs, King Codes of Corporate Governance

PARALLEL SESSION 2

CORPORATE GOVERNANCE AND SUSTAINABILITY DISCLOSURE: EVIDENCE FROM UAE BANKS: ISLAMIC VERSUS CONVENTIONAL

Haitham Nobanee and Nejla Ould Daoud Ellili

It has been long established that the compliance with the good governance practices and the sustainability standards contribute in the development of the financial institutions. The type of governance indicators that may be applied to the financial institutions and the sustainability reports are rarely discussed in the literature, so it's really important to measure the quality of the banking governance as well study its impact on the sustainability disclosure.

Against this background, we conduct this research with the aim of determining the impact of the corporate governance (Board of directors, Auditing Committee, and Remuneration Committee) on the sustainability disclosure by differentiating between Islamic and Conventional banks. In fact, this study examines the impact of the corporate governance on the degree of sustainability disclosure as well as the impact of the sustainability disclosure on profitability of listed banks on the UAE financial markets during the period 2003-2013.

To our knowledge, there is no single research conducted in UAE about the impact of the corporate governance on the sustainability disclosure of the banks, therefore, our research provides the first insight regarding this topic.

Keywords: Corporate Governance, Sustainability, Islamic Banks, Annual Reports, Dynamic Panel Data Analysis

THE EFFECT OF FIRM CHARACTERISTICS AND CORPORATE GOVERNANCE QUALITY ON CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE

Mukhtaruddin, Yulia Saftiana and Pandu Arya Dwikatama

Corporate Social Responsibility (CSR) had been internationally implemented since long time ago. It was proven by many international standards had been issued and adopted by several companies. Implementation of CSR in Indonesia has been regulated in Regulations No 40 year 2007, however that regulation doesn't regulate any quantities of CSR that companies must do. This research attempts to analyze the effect of company characteristics (company size, company age, and profitability) and Good Corporate Covernance (board of commissioner and audit committee) on CSR disclosure.

Sample in this research was 25 mining companies listed in Indonesia Stock Exchange in 2011 – 2013 and reported their activities of social responsibility in their annual reports. The population in this research was taken by using purposive sampling technique. This research is using both descriptive and statistical analysis.

Results of this study indicate that board of commissioner has significant influence on CSR disclosure. But company size, company age, profitability and the audit committee did not show a significant effect.

Keywords: Company Characteristics, Good Corporate Governance, Mining Company, Corporate Social Responsibility

FINANCIAL REGULATION VIOLATIONS AND CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE: A TEST OF LEGITIMACY THEORY IN INDONESIA STOCK EXCHANGE

Habib Muhammad Shahib

This study aims to examine the empirical facts related to the legitimacy theory within the scope of financial regulation violations and corporate social responsibility disclosure (CSRD) of non-financial companies in Indonesia Stock Exchange. The data in this study was obtained from the Indonesia Stock Exchange. 24 non-financial violator-companies of financial regulation during the 2010-2013 period were chosen as the samples. The research hypotheses were analyzed by using a PLS statistics and SmartPLS 3.0 software. The empirical result of this study shows no effect of the financial regulations violations on the level of corporate social responsibility disclosure in Indonesia Stock Exchange. Thus this study confirms legitimacy theory in different socio-economic condition. Originality of this study lies on its research method that uses a value of fine in measuring the severity of company's financial regulation violation and its empirical result that describes the form of legitimacy on different contexts, especially in the context of the Indonesian capital market.

Keywords: Legitimacy Theory, Financial Regulation Violation, CSRD

FINANCIAL STATEMENT FRAUD:

AUDITORS ARE NOT TO BE BLAMED

Francis Awolowo, Nigel Garrow, Murray Clark, and Dora Chan

Over the past fifty years, the business community has experienced a syndrome of ethical breakdown worldwide including extremely costly financial statement frauds. Multiple headline grabbing cases of fraudulent financial reporting at public companies have rocked the capital market. For example, in 2001, the news of Enron's collapse rocked the capital market damaging investment of over $74 billion; in 2002, WorldCom investors lost over $180 billion because of financial statement fraud; then in 2003, accounting fraud was discovered in Parmalat, an Italian milk processing giant; in 2011, Michael Woodford exposed the biggest accounting fraud in Japanese history; while in 2014, Tesco was caught overstating its profit by £263 million. The first question people are always quick to ask, whenever there is any such revelation of fraudulent financial reporting is who are the auditors? Investors, legislators and the business community are always quick to point accusing fingers at the auditor. In this study, we argue that auditors are not to be blamed for their inability to detect fraud in the financial statement, as financial statement audit is not designed to uncover financial deception in the first place. Therefore, we propose that, for auditors to do a better job at uncovering financial deception, the current accounting paradigm of reporting and procedural auditing will need to change to a forensic accounting paradigm. In this study, we explore what this forensic accounting paradigm look like. We argue that this is the only way out of the embarrassment financial statement frauds have brought to the accounting profession.

Keywords: Financial Fraud, Audit, Corporate Control

COMMITMENT FOR SUSTAINABLE DEVELOPMENT (SD) AND UN INITIATIVES –

RETURNS AND PERFORMANCE SHOWN?

Shirley Yeung and David Chui

Riding on the key findings of Yeung (2015) on reviewing 16 research papers on innovative model and corporate social sustainability (CSR) innovation from 2010 to 2014 via qualitative and quantitative analysis of N' vivo to design a checklist to building an innovative mindset for corporate sustainability with individual innovation, organizational innovation, and innovative operation environment, this study is to reflect the commitment of organizations in ESR reporting and explore ways to integrate ISO 26000 CSR Guidelines, ESG Reporting, and UN Sustainable Development Goals for innovations in CSR performance, focusing participation of women in the workforce and CSR training provided to employees. Based on organizations of China and Germany selected from Bloomberg database, it is found that the selected organization in China and selected organizations in Germany are found without any CSR training for employees though they have training policy and ESG reporting in place in past years. Selected organizations in Germany are found:

1. To be signatory members of UN Global Compact,
2. To have a higher overall ESG disclosure score, in the range of 50 to 60,
3. To have a higher level of women participation in the board, or as CEO and chairperson, and
4. To have a longer period of ESG reporting, around 10 years.
5. To have a better financial performance. The monthly stock returns for these companies are analyzed and compared to the benchmark market performance, with China and Germany index as the proxy for the market. It seems that the chosen companies the market in the monthly stock returns with positive improvement

on earning per shares, profit margin, EBITDA and earning per shares.

In order to increase commitment of CSR and UN SDG, complying with ESR reporting guidelines is not sufficient. It is suggested to integrate the 17 SD Goals of United Nations to empower women with decent jobs for economic and social impacts, to link up ISO 26000 CSR guidelines to inclusion, for example, community involvement and employee issues, and making the criteria of ESG reporting to be more specific, for example, covering the number of times of CSR training and ways of involving women workforce in decision-making.

By understanding the gaps and exploring innovative ways to integrate CSR and sustainability-related guidelines and goals, it is expected that the level of sensitivity in social responsibility and responsible management education will be increased for a better world.

This research is managerially and strategically relevant and topical. However, more practical innovations and sustainability-related education and business practices from the social perspective are required not only to improve the ESR disclosure score and economic impacts, but also to generate a mindset of sustainability.

Keywords: Sustainable Development, Performance, UK Initiatives

UNCONVENTIONAL INSTRUMENTS OF SUSTAINABILITY IN HIGHER EDUCATION: The Loyalty Programs and Word of Mouth

Wachyudhi.N., Budhi Suparningsih and Dhistianti Mei Rahmawantari

This study aims to examine the role of loyalty program to moderate the effect of satisfaction on positive word of mouth. Data were collected from a survey on 120 university students in the capital city of Indonesia - Jakarta, by using the technique of convenience sampling approach. Hierarchical regression analysis was selected as a statistical tool to illustrate the causal relationships between variables that hypothesized. The results indicate that service quality has positive effects on satisfaction and word of mouth, as well as the tuition fees has positive effects on satisfaction and word of mouth. While the effect of satisfaction in shaping positive attitudes towards word of mouth was still not consistent. This is because in the step-2 test results showed a positive and significant, but when it is controlled by the interaction of the loyalty program at step-3, the effect turns into a negative and insignificant. The phenomenon of such relationship is likely to happen due to the satisfaction can change instantly if there is a change to the situation. In other words, in this context the role of the loyalty program is considered as a moderating variable that could undermine the formation process of positive word of mouth recommendation. Implications of this study are provided.

Keywords: Service Quality, Tuition Fee, Satisfaction, Loyalty Program and Word of Mouth

CONFERENCE SPONSORS AND ORGANISERS

Hang Seng Management College was founded in 2010 by HSSC, in response to Donald Tsang's statement in his 2009 policy address that the self-financing higher education sector has room for expansion and is an important component of education services. In May 2010, the College was registered as an Approved Post Secondary College, and was approved to award degrees by the Chief Executive in Council. In September 2010, the College starts to offer its first three bachelor's degrees with honours programmes, together with Associate and Pre-associate degree programmes originally offered by HSSC. The Inauguration Ceremony of the College was held on 28 January 2011. Sir Donald Tsang, Chief Executive of HKSAR was among the guests that day. In June 2011, the College celebrates its first anniversary and announces the foundation of the School of Communication at the same time. Professor Scarlet Cho is the first Dean of the School. Starting from year 2011/12, the College stops offering the Pre-associate Degree in Business Administrations programme. http://www.hsmc.edu.hk

The publishing house “Virtus Interpress” offers the expertise and global perspectives in corporate governance. “Virtus Interpress” publishes four journals in corporate governance and regulation, book series, acts as co-organizer of international conferences and seminars. www.virtusinterpress.org

The aim of the Centre for Corporate Sustainability and Innovations is to establish a platform for services / products/ activities co-creation related to social responsibility (SR), sustainability and innovation to align with the 5-year strategic plan of HSMC, the Six Principles of PRME, UN Global Compact, the Report on Manpower Projection to 2018 of the Hong Kong SAR Government, and the OECD Action Plan for Youth mentioned in the 3rd UNESCO-APEID Meeting on Entrepreneurship Education.

http://ccsi.hsmc.edu.hk

Virtus Global Center for Corporate Governance was established by Virtus Interpress in 2014. It is aimed to unite thousands of experts who have expertise in general corporate governance. Therefore to unite the network around the idea to conduct research in general corporate governance, not just in corporate governance and regulation in banks and financial institutions the new center was established. www.virtusgccg.org