CENTER FOR CORPORATE GOVERNANCE

Nordic Finance and the Good Society

Newsletter, May 2017

A word from the Director

Could there be a link between responsible banking, better corporate governance, and block chain in the financial sector?

It is very fashionable among leading consultancy firms to push digital disruption as a game changer. But the real challenge isn't digital disruption, but what values should be built in to artificial intelligence models and what behavior is prescribed, when robot advices, as an example, are given to a client with limited understanding of financial products.

Technology should serve a purpose, which should also be the case for block chain. There is no doubt that block chain, if structured the right way, could be a watershed in improving global corporate governance standards and mitigate corruption - and thereby ultimately help to establish a more responsible financial sector.

Hence, in order to have a more profound discussion about these essential topics and to celebrate CBS's 100th anniversary, a special event about Responsible Banking and Finance will take place on October 30th 2017. The purpose of this event is to develop an engaged dialogue with stakeholders from the banking and finance industry and to challenge the current attitude towards banking and its future. The hope is that this dialogue will ignite new ideas and develop an agenda for future research and teaching in business schools in the coming decade. Please make sure to reserve the date and come join us for the day.

With CBS being regularly ranked as a global leader in terms of responsible management education, we believe this event compliments CBS's ambitions and allows the university to be at the forefront of setting the agenda for responsible banking and how we approach teaching and research on the topic in the future.

Lars C. Ohnemus

Since last time…

CCG and the Nordic Finance and the Good Society project held a number of successful seminars. The focus was on the future of the financial sector, in particular in the light of the activity pursued by the European Central Bank, the Capital Market Union project, and the general framework of funds. In September 2016, we held two seminars. The first was titled "The future of the financial sector: How to promote an equity culture in Denmark?" This seminar was hosted in co-operation with The Danish Shareholder Association. There were over 80 participants at this seminar. The second seminar in September was with John Kay on the topic of "Other People´s money." Mr. Kay discussed how financialization came about and how regulations have been a problem as well as a solution.

In October 2016, CCG invited Associate professor David Zaring to discuss "The foreign Relations power of the Federal Reserve." In November 2016, CCG hosted a seminar on Asset Management titled "Creating value in a low interest rate environment". The seminar was a great success and had over 100 participants. The last NFGS seminar of 2016 was the Financial Regulation Seminar with Professor Ryan Bubb from New York University. His seminar focused on "Regulation Motivations: A New Perspective on the Volcker Rule."

In March 2017, CCG held a seminar on the value of financial advice. Presenters were Prof. Oscar Stolper from University of Marburg, Ass. Prof. Bersant Hobdari from Copenhagen Business School, and Niels-Ulrik Mousten, CFA, Non-executive board professional. The seminar had over 60 participants. The NFGS Advisory Board meeting was also held in March, where successes of 2016 were discussed and future steps introduced. The current idea is, in collaboration with NFGS partners, to develop and run a Master's program in Governance, Strategic Risk Management and Compliance for managers and aspiring managers in the financial industry. CCG is also developing a clinical research to learn more about the value of financial advice.

Publications

"Credit constraints and job destruction"
by Associate Professor Thomas Poulsen and Professor Niels Westergaard-Nielsen.

During the financial crisis, credit was reduced for many firms, and employment decreased everywhere and in most sectors. This paper aims to test whether there is a link between the financial system and job destruction through a decline in credit availability. The authors construct a new data set that combines firm-level information and bank-level information, and to establish causality, authors exploit the exogenous variation in banks' loan supply induced by injunctions from the financial regulator to increase solvency. Using information on almost 15,000 Danish firms over the 2010 to 2015 period, the conclusion is that injunctions have a serious negative impact on the amount of firm-level debt. It appears that firms do not substitute the lost bank financing with equity; instead, they scale down their activities and lower their wage costs. The research also finds that larger banks are more likely to transmit the effect of an injunction to their smaller customers (by constraining credit), whereas smaller banks are more likely to shield their corporate customers irrespective of size.

The paper is available on the NFGS projects webpage

"Bankbestyrelsens Byrde"

by Professor Hanna Søndergaard Birkemose, Professor Nis Jul Clausen and Director Lars Ohnemus.

The financial sector has, in the past years, been exposed to the biggest regulation tsunami since the 1930s. The reason is the financial crisis, and because of the crisis there has been a rare political consensus around the need for stricter regulations in the financial sector. The new regulations do not only influence the daily activities of financial institutions, but also the roles and responsibilities of the Board of Directors (BoD). With the new regulatory environment, and the expectations towards the BoD, the roles of board of director members has changed and needs to adapt to new conditions and stricter legislations.

The paper is available on the NFGS projects webpage

"Return on equity targets in the financial sector: Earning strategy or risk trap? A focus on the Nordics"

by Postdoc Caren Yinxin Nielsen, Director Lars Ohnemus and Assistant Professor Therese Strand.

The use of Return of Equity (RoE) as a performance measure has stirred significant attention in recent years. Among the Nordic countries, Swedish banks, which have set ROE targets, take more risks regarding their asset portfolio and leverage compared to banks that have not set ROE targets. Compared to Swedish banks, Danish banks have low leverages and asset risks, but low earnings (ROA and ROE) and low loan quality, especially since the crisis. This topic is further researched in this paper.

The paper is available on the NFGS projects webpage

Appointments

Charlotte Brendstrup Simonsen went on maternity leave in March 2017. To take over her obligations, **Thordis Katla Bjartmarz** was hired as Communication and Event Manager until March 2018.

We are currently in the interview process for the Professorship in Governance, Regulation, Risk and Compliance at Center for Corporate Governance (CCG), which is a part of Department of International Economics and Management (INT). The center received 9 applications and from those, two candidates have been invited for interviews.