The Firms Markets and Value Research Cluster
is pleased to host the

Corporate Governance Research Day

10.00-10.30	Registration and welcome coffee
10.30-10.45	Introduction (*Giovanna Michelon*)
10.45-11.30	"*Pensions risk, firm risk and the role of CEOs*" *Vicky Kiosse*
11.30-12.15	"The role of accounting in solving agency conflicts within corporate groups: Evidence from voluntary IFRS adoption in the UK" *Fani Kalogirou*
12.15-13.15	Lunch
13.15-14.45	Keynote: **"Is Executive Compensation Just or Unjust? An Efficiency Perspective"** *Michel Magnan* (Stephen A. Jarislowsky Chair in Corporate Governance at Concordia's John Molson School of Business)
14.45-15.30	**"Risk and the Role of Leadership"** *Jo Iwasaki,* Head of Corporate Governance ACCA
15.30-16.00	Coffee break
16.00-16.45	"Does the Audit Committee Influence Audit Effort? Evidence from Materiality Thresholds and Misstatement Risk Areas" *Gilad Livne*
16.45-17.30	"Group polarisation out of the shadows into the limelight" *Gary Abrahams*
17.30-17.45	Wrap up
17.45-19.00	Aperitif & nibbles

Speakers and abstracts

Michel Magnan, Professor of Accounting, Stephen A. Jarislowsky Chair in Corporate Governance, Concordia University, Montreal, Canada

Michel Magnan holds a PhD in Business Administration from the University of Washington, is a Fellow Chartered Professional Accountant (FCPA) and an administrateur de sociétés certifié (ASC). In 2014, he was inducted into the Royal Society of Canada. His research activities are focused on financial statement analysis, governance, performance and compensation management, corporate social responsibility, and environmental and ethical issues. He has published more than 100 articles on these topics in academic and professional journals, and his research findings have been presented at numerous national and international conferences. Between 2006 and 2010, he was Editor in Chief of Contemporary Accounting Research. He is currently Associate Editor of European Accounting Review and of Canadian Journal of Administrative Sciences and serves on several editorial boards.

Prof Magnan is actively involved in the business and professional communities, serving as a member of Canada's Accounting Standards Board, as a member of the board of directors of Valeurs Mobilieres Desjardins Inc., as an Academic Adviser to the Corporate Finance Qualification program of CPA-Canada and as a CIRANO Fellow. He is also a director of the Institute for the Governance of Private and Public Organizations.

"Is Executive Compensation Just or Unjust? An Efficiency Perspective"

The justification underlying most executive compensation packages is that, by providing sizable rewards for good performance, incentive plans (both cash-based such as bonuses or equity-based such as stock option or share awards) are conducive to executives making the decisions and taking the actions that will ultimately translate into value creation in the market. Such a definition of just executive compensation reflects an efficiency view that is quite widespread in governance circles. Our analysis purports to revisit the conceptual and empirical underpinnings of the efficiency view of executive compensation by adopting a societal perspective. Conceptually, it is hard to claim unequivocally that actual levels of executive compensation are justified on the basis of efficiency. Empirically, evidence drawn from macro-economic data suggests that high levels of executive compensation, which are driven by performance-based incentives, do not appear to produce expected economic outcomes in terms of firms' efficiency. For instance, rising executive compensation in the Anglo-Saxon countries (United States, United Kingdom, Canada, Australia and New Zealand) since the mid-1970s does not correlate with a rise in gross domestic product (GDP) per capita. In addition, productivity growth has stalled in most Western economies since the beginning of the current century. We conclude by raising and discussing alternative explanations.

Jo Iwasaki, Head of corporate governance, Professional Insights, ACCA

As Head of Corporate Governance within the Professional Insights team of ACCA, Jo has published on a wide range of corporate governance topics, including governance principles, board responsibilities, and diversity.
She has lectured in front of various audiences, including directors, academics, and students. A qualified accountant, she is trained in tax and audit. In addition to corporate governance, she also has extensive experience in auditing and assurance.

"Risk and the role of Leadership"

Jo will present findings from ACCA's latest report Risk and the strategic role of leadership. This report illustrates the current practice of board oversight of risk management, based on in-depth interviews with executive and nonexecutive directors. It highlights good practices but also challenges that leaders face and considers way forward.

Vicky Kiosse, Associate Professor of Accounting, University of Exeter Business School

Vicky is Director of Postgraduate Research Students for the Accounting Department. She holds a PhD in Accounting and Finance from Lancaster University. Vicky's research areas broadly defined are in financial accounting and reporting, accounting standard setting, disclosures, capital market-based research and corporate responsibility. In particular, her research interests focus on pension accounting, non-GAAP reporting and corporate social responsibility. She was involved in the Prince's Accounting for Sustainability project and has conducted a study of Aviva's deployment of the Connected Reporting Framework with colleagues from Lancaster University. This research was funded by the Accounting for Sustainability Project and a number of professional accountancy bodies. In the past, Vicky taught management accounting and management control systems at the undergraduate and postgraduate levels.

"Pensions risk, firm risk and the role of CEOs"

We examine whether systematic equity risk reflects the risk of defined benefit pension plans in the U.K. The prior literature finds that equity risk reflects the risk of the firm's pension plan in the U.S. (Jin et al., 2006). We examine whether equity risk, as captured by beta, reflects the risk of a firm's defined benefit plan in the context of the unique institutional environment and the different accounting standards governing pensions in the U.K. In particular, the existence of the Pension Protection Fund in the U.K., which compensates members of defined benefit pension plans in the event that a company becomes insolvent and provided there are not sufficient assets in the plan and the risk-based levy it charges firms sponsoring pension plans, is likely to have an impact on the *relationship between firm risk and pension risk. In addition, defined benefit plans are set up in trusts in the U.K. Further, IAS 19 the accounting standard governing pensions in the U.K. since 2005 provides companies with a choice about the recognition of actuarial gains or losses (i.e., immediate recognition in OCI / P&L or the corridor method) and of pension assets and obligations. More recently, under the revised accounting standard IAS 19R firms are required to recognize actuarial gains or losses immediately in OCI since 2013 and the net pension asset or liability on the balance sheet. The diversity in the recognition of pension-related amounts over time in the U.K. suggests that examining the relationship between firm risk and pension plan risk is interesting. Further, we extend the prior literature on the relation between firm risk and the risk of defined benefit plans by examining the potential role of CEOs. In addition, as mentioned previously defined benefit pension plans in the U.K. are set up in trusts and trustees are typically responsible for pension investment decisions among others (The Pensions Regulator, 2014). For a subsample of companies for which data on pension plan trustees is available, we examine the potential role of insider trustees (e.g., CEOs who are also trustees) on the relationship between firm risk and pension plan risk.*

Fani Kalogirou, Lecturer in Accounting and Finance, University of Exeter Business School

Fani joined the University of Exeter in September 2013. She holds a PhD in Accounting and Finance from Lancaster University. During her doctoral studies Fani had the opportunity to work as an early stage researcher for the INTACCT research project, which brought together an extended network of European academics interested in examining the effects of the worldwide adoption of International Financial Reporting Standards (IFRS). Before joining the Business School, Fani was a post-doctoral research fellow at the KPMG Financial Reporting Centre in ESSEC Business School and have worked for a number of years as a Chartered Accountant.

"The role of accounting in solving agency conflicts within corporate groups: Evidence from voluntary IFRS adoption in the UK"

One of the most critical decisions top management in corporate groups has to make is the allocation of resources among competing investment opportunities. Information asymmetry between the parent and the subsidiary, however, creates agency conflicts that complicate such allocation. We examine whether accounting information can mitigate those agency costs in a UK setting where a choice existed for subsidiaries to voluntarily adopt IFRS. We find that adopting subsidiaries have greater cash holdings, receive more group borrowings and pay less dividends. These findings are consistent with IFRS adoption reducing agency costs of excess cash. Further, we find that IFRS subsidiaries have greater (lower) capital expenditures when in growing (declining) industries and invest more in innovation and intangible assets.

Gilad Livne, Professor of Accounting, University of Exeter Business School

Prior to joining University of Exeter Business School Gilad served on the accounting faculty of the London Business School and Cass Business School. He received his MSc and PhD in accounting at the University of California at Berkeley in 1996. Gilad is a CPA (Certified Public Accountant, Israel) and worked several years as a senior auditor in Israel, after completing his BA in accounting and economics at Tel Aviv University. Gilad's teaching involves financial statement analysis, international accounting as well as introductory and advanced financial accounting courses. Gilad has also conducted consulting activities on corporate disclosure issues. Current research looks into auditor independence, international accounting, fair value accounting, and compensation. His research has been published in *Review of Accounting Studies*, *Journal of Banking and Finance*, *Journal of Corporate Finance*, *Journal of Business Finance and Accounting* and *European Accounting Review*. Gilad has widely presented his research in conferences and universities in Asia, Australia, Europe and the United States.

"Does the Audit Committee Influence Audit Effort? Evidence from Materiality Thresholds and Misstatement Risk Areas"

Taking advantage of new regulation of the auditor's report in the UK, we examine the relation between twelve audit committee (AC) characteristics and two measures of audit effort: materiality levels and number of misstatement risk areas. We find evidence indicating that when the AC chair or its members concurrently serve on other boards, materiality level is higher and number if risk areas is smaller, but the reverse holds for concurrent service on other ACs. In addition, we find that the frequency of AC meetings is negatively (positively) related to materiality (risk areas). Other AC characteristics are also related to audit effort, although the strength of the relation depends on the measure of effort (materiality or risk areas). Our results identify a channel through which ACs influence the external auditor's planning and effort.

Gary Abrahams, Lecturer in Economics, University of Exeter Business School

Before joining the University of Exeter Business School, Gary Abrahams worked for 14 years at UBS Investment Bank in Fixed Income. He worked his way up to the position of Managing Director running the bank's Northern European FIG DCM franchise. He achieved a number of team and individual successes while at UBS, with the two most notable being awarded FIG DCM Banker of the year in 2008 by Euroweek, and being voted as a top 100 Global Bankers by Brendon Wood in 2007. Gary retired from the City in 2008 to pursue his passions in academia and also to have more time for his family and his other great passion in life, which as a South African is typically sports. Before working at UBS, Gary spent three years at Price Waterhouse and 18 months at the University of Cape Town as a lecturer in the Department of Accounting.

"Group polarisation out of the shadows into the limelight"

This paper explores the psychological phenomena of group polarisation and its impact on group decision making in the context of corporate boards. Group polarisation is a phenomenon which explains that groups after deliberation tend to be more extreme in the direction in which they are already tending. Group polarisation highlights that collaboration can result in opinion extremity which in the context of a corporate board can increase the variance of outcomes and riskiness of decision making. We find that despite unequivocal evidence as to the existence of group polarisation in deliberations, this phenomenon does not appear to be recognised in the governance codes. We theorise as to why that may be the case, identify its importance from both a firm and systemic level and discuss ways in which it can be avoided. We focus on the importance of diversity in the board, but warn that diversity should not in isolation be seen as a panacea for avoiding group polarisation. We conclude that group polarisation needs to be taken out of the shadows and to be recognised as an important behavioural factor that can, and does, affect board decision making in the governance codes.