UNIVERSITÉ DE SHERBROOKE

THE CIBC RESEARCH CHAIR ON FINANCIAL INTEGRITY

The 2019-2020 Report

By

Prof. Michel Dion, Chairholder
École de gestion

2020

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Introduction

Between 2010 and 2019, the first mandate of the CIBC Research Chair on Financial Integrity has produced many important results, including the creation of two important databases (about governance practices and structures of Canadian companies; and about the impact of the first announcement of financial crimes in the *Wall Street Journal*). Moreover, researchers have produced 8 books, 21 book chapters, and 58 articles.

Since Summer 2019, the second mandate (for a five-years term) has begun, with its new research challenges. We are still building our two unique databases: one in the Governance Thrust and the other in the Financial Thrust. These databases are the foundation of our future publications. Other research projects have been added in order to deepen and widen the scope of the financial research thrust. Moreover, it is worth mentioning that a lot of graduate students are trained within the Chair research program.

In 2019-2020, the researchers of the CIBC Chair on Financial Integrity have published:

- 1 book
- 1 book chapter
- 9 academic articles
- 3 working papers

For given publications and researches, the COVID-19 crisis has affected the progress of some projects.

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I- RESEARCH PROJECTS

The Chair has the following **strategic objectives**:

- Advance knowledge in the fields of integrity and financial crime.
- Establish new methods and new prevention mechanisms such as compliance programs, trend watch, and emerging financial crime.
- Help improve the training of future managers in terms of corporate governance, ethical leadership, and ethical decision-making.
- Improve the transfer of knowledge about financial integrity between university researchers, levels of government, regulatory bodies, and the business community.
- Establish partnerships with research institutes and chairs in Canada and abroad.
- Disseminate the Chair's research as a means of preventing financial crime.

The Chair's research activities fall into four thrusts: governance, finance, legal, and procedural.

Here are the different stages and aspects of research projects we have focused on in the last year.

GOVERNANCE THRUST

HEAD OF THE GOVERNANCE THRUST: Prof. Hyacinthe Somé, Department of Finance, École de gestion, Université de Sherbrooke

This research thrust aims at analyzing governance culture evolution in Canadian businesses (within the context of the new regulations applicable in each Canadian province) and worldwide (particularly in East-Asia and Latin America). We will study the influence of institutional changes on the governance culture, the financial and the social performance of these companies. This involves understanding: (1) how corporate ownership structure (including government ownership) influences corporate governance, and (2) how corporate governance, as it is practiced or should be practiced by businesses, can help create long-term wealth for shareholders and also for other stakeholders, insofar as it targets to inculcating a culture of financial integrity within business' culture. Researchers in this thrust will study the potential connections between business characteristics, particularly their ownership structure, their governance structures, their risk-taking behavior, and the occurrence of financial crime within these businesses.

<u>Project 1</u>: Corporate Governance and Corporate Social Responsibility and Financial Performance (Prof. Hyacinthe Somé, Department of Finance, École de gestion, Université de Sherbrooke)

The introduction of external capital into a corporation establishes an agency relationship between the owner of the corporation and the manager (the agent). This agency relationship gives rise to an agency problem, that is, the agent (the manager) may not maximize the principal's welfare, and instead he may pursue his own interests. An efficient solution to agency problem should reduce the conflict of interests between the manager and the owner. Corporate governance deals with the mechanisms that the owners of corporations implement to ensure that the manager behave in the owner's best interests. However, corporate governance mechanisms are sometimes influenced by the management in place, whom the mechanisms are supposed to monitor. Most importantly, even when corporate governance mechanisms are efficient, they may be socially less friendly as they focus only on the owner's wealth. This project aims at presenting a corporate governance framework that is socially responsible (i.e. investment in corporate social responsible – CSR – projects), in that in include the utility function of all stakeholders. We will follow Jensen and Meckling (1976) to present a simple framework for a manager investing in CSR. Assume an owner with full ownership of a corporation. The owner decides the amount of perquisites she/he consume. We assume that perquisites are non-pecuniary benefits (in particular loyalty/respect and love) that the owner gets from employees and the society. She/he spends resources to increase employees love and loyalty; she/he also devotes resources to the society, through donation to charitable and environmental organizations, and in return he gets love from the society. For simplicity, we assume these resources spending as CSR investment. The owner will spend his own money in CSR projects. The cost to the owner of consuming $1 of non-pecuniary benefits in the company is 1$, that is, the owner bears the full cost of CSR projects. Now assume, the owner decides to sell a portion $1>\alpha>0$ of her/his company to an outside investor, who now becomes the new owner. The old owner will now run the company as a manager with $1-\alpha$ stake in the company. Since the manager consumes the entire non-pecuniary benefits, she/he should continue to bear the full cost of CSR projects. However, after the capital is sunk, the cost to the manager of consuming non-pecuniary benefits is no longer $1, instead it will be $(1-\alpha)$$. Thus, the new owner will bear a portion $\alpha$$ of CSR investment, but she/he will get nothing in return. Milton Friedman (1970) argue that the manager has no rights to invest CSR as she/he owe a duty to work in the interest of the principal (the new owner). The owner will spend efforts in governance mechanisms to prevent the manager from investing in CSR projects that give him non-pecuniary benefits, or to focus on CSR projects that increase the owner wealth. In this research we argue that those governance efforts should be socially responsible. In particular, the owner should not prevent the manager from investing in CSR projects that has value for employees and the society even if those projects do not increase the owner's wealth.

2019-2020: This project is in progress. A doctoral student (Nazif Orou Zime) has agreed to work on the project. His task consists on: (1) collecting the data on firm governance, environmental, social and financial performance, (2) performing empirical analysis, and (3) partly discussing the results. Financial data are already obtained from various sources: Datastream/Worldscope and Capital IQ/Compustat. For data on corporate social responsibility, we use Thomson Reuters Corporate Responsibility Ratings, ASSET4. The research will also make use of MSCI KLD ratings on CSR. By December 31st, we expect to finish the development of our hypotheses and start preliminary empirical analysis.

<u>Project 2</u>: Updating and Widening the Scope of the Canadian Database on Corporate Governance (Prof. Sylvie Berthelot, Department of Accounting, École de gestion, Université de Sherbrooke)

In 2010-2011, we started building a database on 241 Canadian business corporations (from 2000 to 2012) listed on the Standard and Poor's/TSX (Toronto Stock Exchange) index. The database includes information about members of boards of directors and their committees: their name, age, gender, expertise, roles, years of service on the board, related/unrelated status, the number of boards (of listed companies) of which they are members, and the number of board/committee meetings in which they have participated. Through the database, researchers (U de S) will have access to information about some 35,000 directors from 2000 to 2018. No other database in the world provides so much information about directors of listed Canadian companies. It will help to delineate the major trends in governance structures, such as the size of the board, the number of committees, the related/unrelated status of directors, their expertise and gender, as well as the duration of their term of office and their compensation. Professor Sylvie Berthelot and many Master and Doctoral students have carried out various research projects using the data in this database. This database will help provide answers to many other questions in the years to come since it will enable researchers to identify and monitor governance practice trends in Canada's largest corporations.

In recent years a new and somewhat disturbing trend has been noted on Canadian markets. Major Canadian firms have had to respond to pressure to increase short-term gains for institutional investors, particularly certain US speculative funds, to the detriment of their long-term viability. Valéant Canada, Canadian Pacific Railway, Tim Hortons, and Sears Canada are a just few examples. One of these investors' attack strategies is to acquire share capital and then press for higher short-term results. The voting process at shareholders' meetings seems to be one of the weaker links in Canadian firms' defence against these attacks. Yet very few researchers have addressed this issue even though this process is a key component of corporate governance practices. The aim of this application is therefore to expand the database on governance practices in large Canadian firms to include shareholder voting at annual general meetings. On the one hand, the goal would be to produce a portrait of votes cast at shareholders' meetings and, on the other, to identify the contexts and factors likely to influence these votes. Among other things, this research program will attempt to answer the following questions: Are shareholders' votes at annual general meetings influenced by a firm's financial performance and dividend payout ratio? Are they affected (or changed) by firms' specific governance practices or by directors' competencies and skills? What circumstances make it possible for institutional investors to achieve short-term gains using debatable tactics (e.g. sale of subsidiaries, payment of exceptional dividends) supported by shareholder votes.

2019-2020: Doctoral student Caroline Talbot and Professor Berthelot recently demonstrated that the costs of the board of directors is not related to the quality of financial performance (Talbot, C. and Berthelot, S., « Rémunération du conseil d'administration et du comité d'audit et gestion du résultat comptable », *Finance Contrôle Stratégie*, 2020, NS 8 (online: https://journals.openedition.org/fcs/4514).

Project 3: Regulation of Financial Services: A Comparative Approach (Prof. Anastassios Gentzoglanis, Department of Finance, École de gestion, Université de Sherbrooke)

The regulation of the financial industry is in continuous change and evolution. Nonetheless, there are major breaks in the history of regulation during which its overhaul is necessary in order to take into account the structural, technological and behavioral changes that occur in this industry (Claessens, 2009). In the US, the latest revamp was made in 2010, immediately after the 2008 aftermath of the global financial crisis (GFC) with the introduction of the Dodd-Frank Act (DFA). Many countries have followed suit. For instance, the EU has introduced a quite extensive legislation, the Markets in Financial Instruments Directive[1] (MiFID I/MiFID II and MiFIR (Markets in Financial Instruments Regulation)[2]. As a response to the LIBOR scandal, a new piece of regulation, the "EU benchmarks regulation" has also been introduced lately. Since the 2007-08 financial crisis, a great deal of progress has been made to harmonize the US and the EU regulations. Nonetheless, the revisions and/or the possible repel of the DFA, as it was announced by the new US administration, may cause inconsistencies in global regulation and create competition to the "race to the bottom" (Drezner, 2006, Tonelson, 2000), a phenomenon allegedly to have occurred during the deregulation era, which contributed to the 2007-08 financial crisis (Fligstein and Goldstein, 2012; Ramskogler, 2015).

This research project examines the traditional and new paradigms for sustainable financial regulation and the consequences of the race to the bottom when regulations of the financial industry in various international contexts are not coordinated. A comparison of the mismatch in the timing of coordination of the US and the EU regulatory regimes highlights the dynamics of the "regulatory competition" and the incentives it provides in creating a "regulatory arbitrage" and a destabilization of the financial industry. It argues that, from a point of view of the society as a whole, the negative consequences associated with greater misconduct observed in regimes with more lenient regulations could be limited by the adoption of harmonized and well-coordinated cross-border regulatory regimes. From an international perspective, any regulatory reform should respect some "common minimum standards of regulation", in order to avoid the race to the bottom and limit the propagation of systemic risk. This is particularly true when factors such as "insufficient legal authority", lack of resources, political will and skills diminish the ability of regulatory agencies to effectively enforce compliance with existing rules and regulations (Carvajal and Elliott, 2007).

[1] MiFID I was enacted in 2004 but it came into force in 2008. It was further refined and significantly modified in 2014 as MiFID II. From a Directive, it became Regulation and passed as MiFIR (Markets in Financial Instruments Regulation) which will come into force in 2018.
[2] Many of the clauses of these regulations and the new Benchmark regulation will become effective in 2018.

Project 4 : Preventing Financial Crime Through Ethical Reflection (Prof. Michel Dion, Chairholder : Department of Management and Human Resources Management, École de gestion, Université de Sherbrooke)

The prevention of financial crime is often seen either from a legal/regulatory viewpoint, or from sociological/psychological perspective. It is even the case when te issue of corporate governance is at stake. However, in the long run, it is not enough to change the mindset of potential criminals. Ethical reflection could unveil the various detrimental effects of financial crime and make people more aware of their moral responsibility. The project examines the way ethical reflection could contribute to prevent financial crime in the organizational setting. It is a road less travelled. Indeed, philosophical questioning could provide various paths to think about financial crimes and to prevent them, in taking one's mindset as the point of departure for the issues to be debated. From an ethical (philosophically based) perspective, two kinds of methodological approach will be used in this project. On one hand, we will analyze how some works of philosophers (for instance, Soeren Kierkegaard, Hans-Georg Gadamer, Paul Ricoeur) could improve the way we are understanding the most important challenges for the prevention of financial crime (such as decision-making processes, rationalization strategies). In doing so, we will eventually analyze how worldviews could radically change the way we are morally considering a given phenomenon (such as financial crime). Worldviews are moulding our morality. On the other hand, we will see to what extent corporate social responsibility/sustainable development reports deal with the prevention of financial crime, and which narrative strategies they are using.

Publications:

DURING 2019-2020 (Year 1): Prevention of financial crime and the contribution of philosophical (ethical) reflection

How could philosophical works allow us to deepen our understanding of the prevention of financial crime?

Hans-Georg Gadamer: Dion, Michel, « A Gadamerian Perspective on Financial Crimes: An Issue of Historically-Based Prejudices and Narrative Strategies », *Journal of Financial Crime* (England), vol. 26, no 3, 2019, p. 836-860.

Soeren Kierkegaard: Dion, Michel, « Fraud and Guilt: Rationalization Strategies and the Relevance of Kierkegaardian Life-Views », *Journal of Financial Crime* (England), vol. 26, no 2, 2019, p. 607-622.

How could religiously focused worldviews influence the way decision-makers deal with corruption?

Dion, Michel, "Social Trust, The Qu'ranic Prohibition of Corruption, and Anti-Corruption Reforms in Indonesia", *Muslim Piety as Economy. Markets, Meaning, and Morality in Southeast Asia* (Johan Fischer and Jeremy Jammes, eds.), Abingdon/New York, Routledge, 2020, p. 29-52.

2020-2021 (Year 2) : **Corporate social responsibility/sustainable development reports and narrative strategies about the prevention of financial crime**

Corporate social responsibility reports and their philosophical grounds:

- Dion, Michel, « La philosophie au secours des rapports de responsabilité sociale de l'entreprise, ou comment dépasser les limites d'un discours « aphilosophique » sur la responsabilité. Première partie - Responsabilité et humanisation du monde », *Éthique et économique* (Canada), vol. 16, no 2, 2019, p. 1-31.
- Dion, Michel, « La philosophie au secours des rapports de responsabilité sociale de l'entreprise, ou comment dépasser les limites d'un discours « aphilosophique » sur la responsabilité. Seconde partie - Responsabilité et relations Moi-Autrui », *Éthique et économique* (Canada), vol. 17, no 1, 2020, p. 1-28.

2021-2022 (Year 3) : **Corporate social responsibility/sustainable development reports and narrative strategies about the prevention of financial crime**

FINANCIAL THRUST

PERSON IN CHARGE OF THE THRUST: Profs. Yves Trudel and Mohammad Refakar, Department of Finance, École de gestion, Université de Sherbrooke

<u>OBJECTIVE OF THE FINANCIAL CRIME THRUST:</u>

The financial crime thrust aims at describing current practices and trends pertaining to financial crime. Given the potential impact on investors and savers, this Thrust Chair focuses its efforts on understanding fraudulent stratagems and assessing the financial impact of these stratagems on businesses. This involves understanding: (1) how financial irregularities announcements are impacting directly expected returns, total and systematic risks of publicly traded firms. This impact is measured and analyzed within the North American context and worldwide (particularly in Japan and China); (2) how financial crime trends and stratagems can be impacted by innovations (e.g. changes in financial intermediation activities, financial products development, technological changes).

<u>Project 1</u>: Updating the US Database on Financial Crime (Prof. Yves Trudel and Prof. Mohammad Refakar, Department of Finance, École de gestion, Université de Sherbrooke)

Database on Financial Crimes: The American database (Wall Street Journal, January 4th, 1984-October 3rd, 2013) has been finalized. It should however be updated every year. Developing our own database became an obvious necessity following the literature review done during the summer of 2010 by our research assistant. In February 2011, student Line Drapeau was hired to build a database regarding financial crimes. The initial database included i) article title, ii) article publication date, iii) abstract, iv) relevancy score of 1 to 3 (i.e. 1: a highly relevant article - most often the first article of a major financial fraud; 2: a relevant article, broad outlines of a trial (accusations, plea, verdict, etc.); 3: low level of relevancy. The database was completed by adding more information about the way news have been updated since the first announcement of the financial crime. Hence, the database incorporates follow-up of news referring to the first published financial crime.[3] The way such updated information is disclosed should have a significant impact on company value and related-company value (for instance, suppliers, clients). There is an interval between the first announcement of a corporate event and its gradual incorporation in the equilibrium price. A high frequency of newspaper articles about a given financial crime should accelerate the movement on securities of “criminal-indicted” companies and amplify the cascade effect on securities, which are indirectly linked to companies which

[3] To our knowledge, no publication reports the impact of updates on the information following the first news. We believe that the circulation of updates must have a significant impact on the enterprises’ value and on related-enterprises' values (suppliers, customers, auditors, etc.). This stance is notably based on the largely documented interval between the announcement of news and their gradual incorporation in equilibrium prices. A notable frequency of publications on financial crime must accelerate security movement related directly to the crime, and magnify the cascading effect on securities indirectly associated.

have been the object of the first announcement ("criminal-indicted companies"). Three types of variables have therefore been taken into account: (1) media-related variables; (2) organizational variables (e.g. governance); (3) event-related information variables (e.g. amount of the fraud, type of fraud). Does the first announcement of financial crime have any impact of company value and related-company value? To what extent could such impact be closely linked to media-related, organizational, and event-related information variables? The empirical results from one of our master degree students has provided some indications that the market reaction to financial crime announcement may not be homogeneous. That is, there is some preliminary indications that "salient" periods of financial irregularities (for instance, following the 2008 financial crisis) may increase the market reaction to the announcement of financial crime. Therefore, updating the database and increasing its time span is justified.

DURING 2019-2020: The existing database on financial crimes collects all the news covering financial crimes published in Wall Street Journal. Since the creation of this database, many students used it in their dissertations and essays. However, the existing query to extract the articles from the Wall Street Journal was out of date. In fact, ProQuest now has new features that let us find the pertinent articles easily. ProQuest processes each article and extracts the name of the company(ies) each article covers and the subject of each article (among other things). This feature lets us to better isolate the related articles in the Wall Street Journal. After a careful review of these new features, we decided to change the old query and we designed a new one. We compared the results of new query with the existing database and we found some discrepancies. With the old query, we were not considering a number of related articles in our database. We decided to form a group of students who work in compiling a new database with the new query. David Leblanc-Brasseur, Shawn Desjardins, Antony Bureau-Royer, Louisa Djouadi, and Chad Mattioli worked on the database during the last year. Moreover, one intern (Nicholas Lainesse) is also helping the research group to finalize the database. In July 2020, the new database has almost finished. This new database covers all the financial crimes between January 1, 2000, to December 31, 2019. With Professor Frank Coggins, Prof. Refakar supervises David Leblanc-Brasseur (admitted September 2017) and Shawn Desjardins (admitted September 2019) who use this database for their thesis.

Project 2: Paying Back the Victims of Financial Crimes: How Do We Do and What Could Be Done to Get Better? (Prof. Simon Roy, Faculté de Droit, Université de Sherbrooke)

In the Canadian justice system, there are three main ways for financial crime victims to obtain compensation for their financial loss: restitution under the Criminal Code (art. 738), compensation by state-organized funds (e.g. the *financial services compensation fund* managed by the AMF) and civil suits against the persons or entities responsible for the loss. Each of those mechanisms has flaws. Whether it's the absence of control of the victim (criminal law), the strict rules to submit a claim (state-organized funds), or the costs, delays and possibly insolvency of the criminal (civil suits), the potential hurdles for a financial crime victim are numerous. The proposed research project will focus on those aspects of victim's compensation.

Project 3: Firms' Integrity and Productivity in Japan (Prof. Jonathan Goyette, Department of Economics, École de gestion, Université de Sherbrooke; Dr. Takuro Miyamoto (Tohoku-Gakuin University); Pr. Toshi Arimura (Waseda University); tentative: Dr. Hisaki Kono (Kyoto University)

Starting with Mauro (1995), many papers have examined whether dishonest malpractices, such as corruption and collusion, may impact investment and productivity at the firm level and in the aggregate. Fisman and Svensson (2007) argue that firms' malpractices may reflect a strategic behavior to increase productivity for less or more productive firms, depending on the institutional context. If a large economic literature exists on corruption, few economic papers have examined the relationship between firms' integrity and productivity both at the firm-level and in the aggregate. The main objective of this project is to identify and quantify the effect of various determinants of firms' financial integrity on productivity in Japan. We achieve this through three sub-objectives. First, we collect data on firms' activities and productivity (sales, profits, costs, capital, labor, etc.); on the Japanese business environment (regulation, access to credit and labor, taxation, relationships between firms and the state); on procurement projects in villages, towns and cities in Japan. Second, we depict the economic profile of firms engaging in procurement bidding and more particularly, firms engaging in collusion. Finally, we identify the causal link between firms' integrity and productivity and quantify the effect of firms' integrity on productivity.

Project 4: Corrupt-to-Clean Cross-Border Mergers (Prof. Mohammad Refakar, Department of Finance, École de gestion, Université de Sherbrooke)

Corruption, defined by the misuse of public power for private gains, has always been present, in one form or another. It is, in general, endemic, pervasive, and a significant contributor to low economic growth (Rose-Ackerman, 2016; Mauro, 1995). It distorts investment and provision of public services and increases inequality to such an extent that international organizations like the World Bank have identified corruption as "the single greatest obstacle to economic and social development". It hinders inward foreign investment and plays a big role in firms' investment decisions (Erel et al., 2012). Corruption in the host country increases the cost of entry and acts as a barrier, reducing the profits and therefore lowering foreign firms' incentives to invest in that country (Weitzel and Berns, 2006). However, firms located in corrupt countries have other incentives. These firms are exposed to corruption on a daily basis; therefore, they engage in rent-seeking activities, rather than competitive activities, to make and maximize profits. Firms exposed to corruption at home typically have learned the organizational and financial techniques required to keep bribes and illegal transactions secret. As a result, they develop a certain competitive advantage in managing and handling corruption that can help them in the markets abroad (Habib and Zurawiki, 2002). This competitive advantage of expertise in managing corruption turns into a disadvantage and becomes useless in transparent markets. That is the reason why firms located in corrupt countries prefer to invest in other corrupt countries rather than a clean country. Since these firms have always used corruption and economic rents to survive, they simply do not have the necessary skills to compete in transparent markets. In the majority of mergers and acquisitions deals, the acquirer comes from a country that is less corrupt than the target country. This type of merger has been extensively studied in the literature (Erel et al., 2012). However, companies in corrupt countries do acquire firms from clean countries although they do not have experience to function in a clean environment. Nevertheless, the underlying incentive is a mystery. Some of these corrupt acquirers hope to maximize their profit by selling off the target in few years after the acquisition. Others acquire a firm in a clean country in order to learn and transfer new norms, policies and practices. Such voluntary bootstrapping can become a source of value because of a transfer of better management practices from the target to the acquirer. The purpose of this study is to analyze corrupt-to-clean cross-border mergers with a focus on China and India. First, I investigate the short-term and long-term performances (annual returns) of this type of merger. Then, I study if the corrupt acquirers learn from the clean targets and obey the stricter regulations that the target is subject to. In other words, I study if corrupt-to-clean mergers lead to clean-to-corrupt policy transfers.

DURING 2019-2020:
In January 2020, Prof. Refakar has purchased the SDC Mergers and Acquisitions Database. In fact, SDC, is the most recognised database on Mergers and Acquisitions. It covers all the domestic and cross-border merger deals. Prof. Refakar is supervising a master student (Antony Bureau-Royer – thesis – admitted September 2019) to work on this project using this database. He is now working on his literature review. Moreover, Prof. Refakar supervises a DBA student (Arash Faizabad, admitted September 2019) who is working on this project and will use the SDC database for his analyses. Arash is in 2nd year. Prof. Refakar is also going to supervise a potential DBA student who will start his programme on September 2020.

Project 5: The Role of Media Perceptions of Corruption on Foreign Investment (Mohammad Refakar, Department of Finance, École de gestion, Université de Sherbrooke)

Media play an important role in shaping people's beliefs and ideas. More specifically, media have a great influence on what we think about foreign countries. Although tourism has grown rapidly in the last few decades, and people visit other countries more often, media is still the first source of information about other nations. The mass media influence the way a country’s people think of the people and governments of other countries. In addition, media increases the sensitivity of people towards the issues that it focuses on (Djankov et al., 2003). Media could cover all types of stories about foreign countries. Investors willing to invest abroad certainly pay attention to what the media are reporting about foreign countries. Since corruption plays a huge role in investment location decisions, this research investigates the effect of media on foreign direct investment and on mergers and acquisitions outflows. Location factors such as market size, borrowing costs, unit labour costs, and institutional and political stability are critical for the firm’s investment decision. Corruption is determined by a country’s institutional and political environment; thus, high levels of corruption reduce locational attractiveness and have a negative impact on investors’ decision (Habib and Zurawicki, 2002). Host country corruption also raises the cost of a firm’s foreign investment and acts as a barrier lowering a firm’s incentives to invest (Brada et al., 2012). Moreover, it has a negative effect on both foreign direct investment and cross-border mergers (Weitzel and Berns, 2006; Erel et al., 2012). The implementation of the Foreign Corrupt Practice Act (FCPA) in 1997 and the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions in 1999, legally prevents investors to engage in corrupt transactions. In fact, it made the investors sensitive to the level of corruption in the host country. However, it is important to know how the investors and managers get information about the corruption level in the possible host country. Corruption ratings are one of the tools that can help investors on their investment decision. However, numerous daily journals and newspapers cover many stories about corruption (e.g., The Wall Street Journal, The New York Times, etc.). These newspapers are read by CEOs, their consultants and the board members. News stories about corruption in a country can affect the top managers' perceptions of corruption of that country and consequently influence their investment decisions. Therefore, these stories could affect managers' judgment both consciously and unconsciously. By the very nature of mass media (collecting and disseminating information to people), it is probable that unconsciously (or consciously), managers would be reluctant to invest in countries that are portrayed in the media as being corrupt.

DURING 2019-2020:

Prof. Refakar has worked on this project during the last year and has written an article about the effect of media on the foreign direct investment. The article has been submitted and will be published this year. Moreover, an intern (Olivier Painchaud) is working on this project and looking on the different ways the literature measures the effect of the media (keywords, Google trends, Twitter, etc.)

II- SUPERVISED GRADUATE STUDENTS (Master and DBA degrees)

Listed here are graduate students involved in the CIBC Research Chair program. When they have received financial support as research assistants under the supervision of a member of the Research Chair, their names are underlined. Their contributions are described in section I (literature reviews; databases). We are providing here the title of the research project, the degree (DBA, Master) and the name of their supervisor. Papers which have been presented by graduate students in academic colloquia are identified in section IV.

GOVERNANCE THRUST

Master Degree (accountability)

Lyubchynska, Krystina, « SNC-Lavalin et ses pratiques toxiques », M. Sc. Accounting (Master's thesis; supervisor : Sylvie Berthelot). September 2019-
Pelletier, Nicolas, « La Compagnie de la Baie d'Hudson et les défaillances de gouvernance ». M. Sc. Accounting (Master's thesis; supervisor : Sylvie Berthelot). January 2020-

FINANCIAL THRUST

DBA
Rugira, John. "Mergers and Acquisitions and Corporate Social Responsibility" (supervisor: Hyacinthe Somé), 2017-
Nazif Orou Zime, "Corporate Governance and Corporate Social Responsibility and Financial Performance" (supervisor: Hyacinthe Somé), 2018-
Arash Faizabad, "Do firms in corrupt countries invest differently than firms in clean countries?" (Supervisors: Claudia Champagne – Mohammad Refakar), 2019-

Master Degree (M. Sc. Finance)
<u>David Leblanc-Brasseur</u>, "The effect of financial crimes in a firm on its performance and risk" (Supervisors: Frank Coggins – Mohammad Refakar), 2017 -
<u>Shawn Desjardins</u>, "The contagion effect of financial crimes on the firms' sector" (Supervisors: Frank Coggins – Mohammad Refakar), 2019-
<u>Antony Bureau-Royer</u>, "Do corrupt firms acquire to invest rather than learn?" (Supervisor: Mohammad Refakar), 2019-

Interns
Samuel Yacob (Mitacs Globalink internship programme, Summer 2019) (Supervisor: Mohammad Refakar)
Nicholas Lainesse (Intern – UdeS, Summer 2020) (Supervisor: Mohammad Refakar)
Olivier Pinchaud (Intern – UdeS, Summer 2020) (Supervisor: Mohammad Refakar)

Doctorate in Law
Éric Leblanc, « La fraude fiscale : une étude des avantages et inconvénients des recours administratifs, pénaux et criminels », (Simon Roy, dir.) (September 2014-)
Jeanne Huber, « La protection de la confidentialité de l'information économique par le droit criminel et pénal » (cotutelle with the Université Montesquieu – Bordeaux IV) (Simon Roy, codir. ; Jean-Christophe Saint-Pau, co-dir) (September 2014 -)
Tiphaine Dourges, « Vers une théorie de la répression en droit criminel économique » (cotutelle with the Université Montesquieu – Bordeaux IV) (Simon Roy, co-dir. ; Olivier Décima, co-dir) (September 2014 -)
Claudiu Popa, « L'utilisation des nouvelles technologies comme moyens d'enquête contre les crimes économiques », (Simon Roy, dir.) (January 2017 -)

Doctoral candidate in Economics
Nelie Nembot is a second year PhD student working on topics related to environmental economics and poverty. She is a potential candidate to work as a research assistant on Project 3 of the Financial Thrust: Firms' integrity and productivity in Japan, pending her completion of compulsory PhD courses this summer (Prof. Jonathan Goyette, director of the Project 3).

Master Degree (M. Sc. Finance)

Clouthier, Louis Philippe. "L'impact des facteurs ESG sur la variation du risque en contexte de transactions de fusion et acquisition" (supervisors: Hyacinthe Somé and Frank Coggins), 2018-
Chauvette, Nicholas. "L'impact des facteurs ESG et des régimes légaux sur les transactions de fusion et acquisition" (supervisors : Hyacinthe Somé and Frank Coggins). Completed (2020).

III- PUBLICATIONS

The publications of the chairholder and collaborators have contributed to advance our knowledge and understanding of various aspects of financial crime (particularly about corruption and cybercrime), corporate governance and ethical leadership. In that way, they constitute social and academic contributions to the society as well as the academic community.
Underlined: postdoctoral fellow or students supervised by the chairholder or collaborators.

GOVERNANCE THRUST

(a) Corruption and Financial Crime

Articles in Academic Journals

Dion, Michel, "A Gadamerian Perspective on Financial Crimes: An Issue of Historically-Rooted Prejudices and Narrative Strategies", *Journal of Financial Crime* (England), vol. 26, no 3, 2019, p. 836-860.

Dion, Michel, « Fraud and Guilt: Rationalization Strategies and the Relevance of Kierkegaardian Life-Views », *Journal of Financial Crime* (England), vol. 26, no 2, 2019, p. 607-622.

Book Chapters

Dion, Michel, "Social Trust, The Qu'ranic Prohibition of Corruption, and Anti-Corruption Reforms in Indonesia", *Muslim Piety as Economy. Markets, Meaning, and Morality in Southeast Asia* (Johan Fischer and Jeremy Jammes, eds.), Abingdon/New York, Routledge, 2020, p. 29-52.

(b) Corporate Governance and Ethical Leadership

Book

Dion, Michel, *Éthique de l'entreprise. Questionnement philosophique*. Cowansville, Éditions Yvon Blais, 2019.

Articles in Academic Journal

Berthelot, S., Coulmont, M. and Levant, Y., "Governance: An analysis of the relationship between quality and cost", *Corporate, Control & Ownership*, vol. 17, no 1, 2020, p. 71-78.

Coulmont, M., Berthelot, S. and Talbot, C., "Risk disclosure and firm risk: evidence from Canadian firms", *Risk governance & Control: financial markets & institutions*, vol. 10, no 1, 2020, p. 52-60.

Dion, Michel, « La philosophie au secours des rapports de responsabilité sociale de l'entreprise, ou comment dépasser les limites d'un discours « aphilosophique » sur la responsabilité. Première partie - Responsabilité et humanisation du monde », *Éthique et économique* (Canada), vol. 16, no 2, 2019, p. 1-31.

Dion, Michel, « La philosophie au secours des rapports de responsabilité sociale de l'entreprise, ou comment dépasser les limites d'un discours « aphilosophique » sur la responsabilité. Seconde partie - Responsabilité et relations Moi-Autrui », *Éthique et économique* (Canada), vol. 17, no 1, 2020, p. 1-28.
Talbot, C. and Berthelot, S., « Rémunération du conseil d'administration et du comité d'audit et gestion du résultat comptable », *Finance Contrôle Stratégie*, 2020, NS 8 (online: https://journals.openedition.org/fcs/4514).

FINANCIAL THRUST

Articles in Academic Journals

Refakar, M., Gueyie, J. P., Filbien J. Y. (2019). Exporting Transparency Through Mergers. *International Journal of Economics and Finance*, Vol. 11, No. 7, p. 110-128.
Somé, H. Y., Cano-Kollmann, M., Mudambi, R. and Cossett, J.-C. (2020), "The effect of privatization on the characteristics of innovation", *Financial Management*, DOI: 10.1111/fima.12311.

Working Papers

Boubakri, N., Cosset, J.-C., Mishra, D. and Somé, H. (2020). "The Value of Risk Transfer in Mergers: Role of Country Legal Institutions and Large Shareholders" (Working paper, GreFA, Université de Sherbrooke).
Gauthier, B., Goyette, J. and Wilfried K. (2020). "Why do Firms Pay Bribes? Evidence on the Demand and Supply Sides of Corruption in Developing Countries" (Working paper, GREDI, Université de Sherbrooke).
Goyette, J. (2020). "Firms' growth, corruption, taxation and financial underdevelopment in developing countries" (Working paper, GREDI, Université de Sherbrooke).

IV- ACADEMIC COLLOQUIA

- The names of students who have been hired as research assistants are underlined.
- In some papers, researchers were required to pay registration fees and trip expenses for participating in academic colloquia; but the CIBC Chair funds have not be used to do so.

GOVERNANCE THRUST

Berthelot, S. and M. Coulmont, “Shareholder Democracy or Plutocracy? Director Elections”, EAA 42nd Annual Congress, Paphos, Cyprus, (2019).
Coulmont, M., Berthelot, S. and V. Serret, « The Adoption of Voluntary Say on Pay: the Canadian Experience », EURAM 2019, Lisbon, Portugal, (2019).
Talbot, C. and S. Berthelot, « Sommes consacrées au conseil d’administration et au comité d’audit et gestion du résultat comptable », 40e Congrès de l’AFC, Paris, France, (2019).

FINANCIAL THRUST

Roy, Simon, « La répression de la fraude environnementale au Canada », Conference « Environnement et droit pénal comparé », University Bordeaux (France).

VII- COLLABORATORS

Michel Dion, Chairholder
(The Chairholder is mainly involved in the governance thrust, although he also participates in the other research thrusts of the Chair).

GOVERNANCE THRUST

Hyacinthe Somé, Head of the Governance Thrust (Finance)
Sylvie Berthelot (Accounting)
Anastassios Gentzoglanis (Finance)
Michel Dion (Management)

FINANCIAL THRUST

Mohammad Refakar, co-head of the Financial Thrust (Finance)
Yves Trudel, co-head of the Financial Thrust (Finance)
Jonathan Goyette (Economics)
Simon Roy (Faculty of Law)