

University of St.Gallen Event at GIMLA, São Paulo

5th April 2017, Swissnex São Paulo

The University of St.Gallen seized the opportunity, that a delegation of Professors and Board members visited São Paulo to organize an “Open Day” event. The objective of the afternoon was to present current recent topics at the University and to foster relations with local partners. Around 40 interested partners, alumni and students of the University found their way to the event at Swissnex São Paulo.

In his opening remarks, **Dr. Wolfgang Reichenberger**, Board member of the Latin American Institute GIMLA, emphasized the importance of the Latin American region for the University of St.Gallen. With its long-standing research tradition, promoted by the Centro Latinoamericano-Suizo, and the establishment of the Hub Office in São Paulo seven years ago, the status as a focus region has been underpinned. In this period, over thirty HSG students have passed through internships at the Hub in São Paulo and contributed substantially to its development. Furthermore, being Brazil’s economic and academic center, São Paulo has proven to be the right spot for the university’s permanent satellite office.



The first presentation was introduced by **Prof. Dr. Peter Sester** from Institute of Public Finance, Fiscal Law and Law and Economics at the University of St.Gallen.

To discuss the topic of insider trade, he invited the fellow researchers **Dr. Viviane Prado** and **Renato Vilela** (both FGV Law School) to present their empirical study on the challenges of enforcing the insider trading regulation in Brazil. More specifically, the researchers analyzed how the reform of the legal framework in 2001 affected the insider trading prosecution. This reform added a criminal dimension of insider trading prosecution to the already existing possibility of administrative procedures and adopted thereby a system similar to the US legislation. The researchers were able show the correlation of the new legislation in the rising number of investigations that the securities commission has performed. Since 2001, 50 cases have led to criminal investigations, which is a rather successful rate compared internationally. However, the researchers pointed out that the volume of the insider trading cases are relatively low, compared with the US.

Prof. Sester complemented, that the stock market in Brazil has a relatively low relevance. He underpinned his statement with a recent report, that in 2016 for the first time more capital has been procured on the capital markets than from the Brazilian Development Bank BNDES. This leads to the conclusion that the Brazilian economy is still heavily based on private equity or public lending.





The capital structure of Brazilian companies was also subject of the following panel discussion with **Prof. Dr. Andre Camargo** (Insper) and **Dr. Luis Andre Azevedo** (FGV). Dr. Azevedo explained that Brazil is characterized by a family based capitalism with concentrated ownership structures, which are supported by the dual class structures with common and preferred stocks. Therefore, minority share-

holders can maintain control over the company, which on the other hand dis-incentivizes investment in these corporations. In 2000, the Brazilian state reacted with the so-called “New Market” listing regime, where the dual class system has been abolished. Even though this measure has attracted many companies to list on the stock market, the problem of controlling minority shareholders could not be abolished, as the owners seek other schemes to maintain control.

Concluding the panel, Dr. Andre Camargo informed the participants, that Insper, a partner University of the HSG, is establishing an integral law faculty that will start to offer an undergraduate law degree, in addition to its Post-Graduation courses.

In the second presentation of the afternoon, **Prof. Dr. Thomas Berndt** from Institute of Public Finance, Fiscal Law and Law and Economics at the University of St.Gallen explained how companies create sustainable value by applying integrated reporting. The holistic approach highlights the interrelation of corporate functions and different kinds of capital and therefore allows a more comprehensive picture of the state of the organization. Integrated reporting accounts for the demand of including non-financial statements for disclosure to its investors and stakeholders. It reflects thereby the rising importance of sustainability and corporate governance considerations in the global economy, which have already found formalization in various international standards for integrated reporting.

With respect to the regulatory environment for integrated reporting, Prof. Berndt demonstrates, that Brazil has a magnitude of market initiatives on sustainability disclosure and therefore boasts one of the highest corporate sustainability disclosure rates worldwide. In comparison to Switzerland, Brazil is following a more rule-based approach through standards, whereas Switzerland rather focuses on principles for regulation.



Finally, Prof. Berndt introduced some of the most recent research activities of the Competence Center for Integrated Research of which he is the director. Results indicate a positive impact of properly conducted integrated reporting on stock liquidity, firm value and future cash flow. Furthermore, integrated reporting attracts investors with a longer investment horizon that seek a more sustainable investment in the company. As basis for the research of the competence center is the premise, that integrated reporting is the result of integrated thinking and acting of the management. In other words, sustainability concerns need to be included into the strategy and culture of the organization.

In the following discussion, the invited **Dr. Lauro Gonzalez** (FGV) posed the question of consequences that non-complying organizations face. Prof. Berndt’s highlights that findings show ambiguous results. For example, environmental scandals have not led to decreasing valuation on the financial markets. It seems, as a participant pointed out, that sustainability violations infer consequences only if lives of children or animals are at stake.

In the following presentation, **Dr. Patrick Stach**, Attorney at law and Member of the University of St.Gallen Board of Governors, dived into the essence of Swiss legislation. Switzerland with its direct democratic tradition is characterized by a high involvement of the population in the legislative process. While direct participation on municipal level is widely known in other countries as well, the Swiss sovereign is granted far-reaching possibilities to express their views and hence, influence national politics as well. In contrast to most jurisdictions, the Swiss legislative process foresees two mechanisms of popular participation: the referendum and the initiative.



The referendum is an option given to any member of the Swiss electorate to intervene in regular parliamentary legislative procedures. By collecting 50'000 signatures within 100 days, any citizen may put a parliamentary act to a national vote.

The initiative allows any member of the electorate to require a revision of the federal constitution. 100'000 eligible voters must provide their signature in support of the request within 18 months for the initiative to go ahead and to be brought to a popular vote.

The initiative will be approved if the majority of the electorate and the cantons vote in favor of the initiative – this is referred to as so-called “double majority”. After acceptance of the initiative, the parliament must draft a legislation based on the amendment in the constitution. This popular mechanism has led to various legislations that received international attention. For example, Switzerland voted to prohibit the construction of minarets. On the other hand, the Swiss sovereign has rejected a motion to anchor a right of six weeks of holidays for everyone as well as an unconditional basic income in the constitution.

To conclude, Dr. Stach gave some insights into the Swiss system of arbitration for dispute settlement. The Swiss rules are compatible with all major international agreements on arbitration. The advantages of arbitration are efficiency and impartiality regarding a territorial jurisdiction as international arbitration rules may be selected, which renders the mechanism interesting for international business disputes.

In the following discussion, Dr. Andre Camargo inquired if, according to Dr. Stach’s opinion, the direct democratic system bears any disadvantages. Besides the relatively slow pace of Swiss political and legislative procedures, the speaker emphasized the strength of the system in the very broad legitimation of the Swiss jurisdiction. However, with the rising complexity of the legal system, the individual citizen may not be able to fully grasp all the details and therefore become more dependent on expert opinions.

Prof. Dr. Thomas Rudolph of the St.Gallen Institute of Retail Management presented his most recent empirical research project on frontline employee empowerment and motivation in retail. With the rising complexity of the retail business, the motivation of front-line employees has decreased. This contrasted with the expectation, that higher complexity motivates employees.



Analyzing this situation, the researchers have found that the front-line employees of retailers do not feel empowered in the sense that better performance of their work did not lead to direct influence of the result. In the light of this finding, the research team of Prof. Rudolph designed a research project to identify factors that lead to motivation and empowerment of front-line employees. The research team fed the employees with data on the “A-spots” in stores that achieve the highest revenues thanks to high customer visibility and fluctuation. Furthermore, the employees received data on the best-selling products. The objective of the research

experiment was to empower employees to decide which products to present on the preferred spots and hence, influence the sales performance. An application for the smartphone has been selected, in order to enable the participants to supervise their performance in real time.

A competitive element had been included in the experiment. Teams of different stores of the same retail chain played against each other for the title of the best sales performance. Through the application, the team members had access to data of their own as well as the performance of other teams in selling a pre-defined basket of products, differentiating between basic products and services, such as guarantees for television.

The results are currently being evaluated. However, Prof. Rudolph granted some insight in some promising preliminary data. Overall revenues could be increased in the participating stores. What is more, the employees showed a learning regarding products of higher margins: sales in additional services, for example, did rise substantially. These preliminary findings indicate a higher motivation of the front-line employees if empowered by decisions on product selection and presentation.

In the discussion, Prof. Rudolph answered the question about remuneration for the winner that it was a matter of honor for the best sales team to play the game. This experiment can be adapted to other settings for international comparison or applied to other types of retail stores.



Dr. Martin Huser, vice president of the University of St.Gallen Board of Governors, is responsible for the international Executive Program of Swiss insurance company Helvetia, offered some first-hand insights into the company's vision of leadership in times of increasing digitalization and Helvetia's 20.20 strategy. Three major challenges have been identified for the future of Helvetia. First, the global tendency of digitalization is disrupting business models in various industries, and the online as well as mobile markets are growing rapidly. Smart data, internet of things and automation enter industries that have traditionally

been less affected by these new technologies. Second, the customer requires digitalized convenience and individualized solutions for any kind of service. The changing behavior of customers requires re-evaluation of business practices. Third, due to these trends, the insurance industry is in a state of flux with new competitors entering the market and searching for niches not covered by traditional providers. This development requires a reconceptualization of the corporate strategy as well as culture to be "fit for the future". Dr. Huser emphasized that particularly the current period is characterized by transition and therefore a certain hybridity within the organization: Traditional insurance business is still the cash cow of the organization, while at the same time the digitalization is advancing in a rapid pace and influencing the business models of the future. To be able to cope with these challenges, a modern leadership is of utmost importance.

In contrast to management with a focus on making an organization more reliable and efficient in its current operations, leadership guides the organization into the future and staff through times of transformations of organizational culture. Culture is thereby seen as the underlying set of norms and values of an organization that gives orientation, identification and provides sense. Therefore, leadership centers around the constant development of the area of responsibility of employees and the leading individual. This may be achieved through building capacity in the organization, setting up adequate structures and processes as well as foster understanding for the development processes through active communication.

Through its 20.20 strategy Helvetia is pursuing a cultural change of the organization to be prepared for future challenges. Dr. Huser put it in the very captive term of "*working **on** the system instead of only working **within** the system*". In order to achieve organizational change, it

is important to foster personal and professional development of the executives who are supposed to drive this change. To this purpose, all Helvetia executives are participating in the *leadership@helvetia* to incubate the transformation process towards a corporate culture that enables the mastering of future challenges through innovative leadership.

Dr. Marcelo Crespo (Coordinator, Digital Law and Compliance Damásio Educacional) underlined the importance of embracing changes through digitalization, also in professions that are traditionally not technology centered. For example, Brazilian law firms started to use software for standard legal procedures that led to drastic reduction of employed lawyers. Therefore, he advocated for re-conceptualization of the education system seeking a complementation of both worlds to prepare future generations of professionals for the digitalized environment.



Prof. Dr. Yvette Sánchez concluded the academic program of the afternoon with an insight on a multidisciplinary research project on Swissness at the International Committee of the Red Cross (ICRC). The organization started as a Swiss entity, only recruiting Swiss nationals from the French



speaking part of the country, while today, 82% of the delegates are non-Swiss citizens. Moreover, the international perception of Switzerland, above in the Muslim world (73% of the ICRC target), as a neutral, humanitarian state has suffered, e.g. after the Swiss plebiscite of the minaret ban, which had a huge symbolic effect in the Middle East. In the ICRC logo, international Geneva, not Switzerland is mentioned, as the former's image is perceived as separated from the Swiss state. This contrasts with other globally recognized Swiss flagship brands, which promote their quality by associating with the "Swiss-made" label. Through interviews with ICRC delegates, the research team identified shared general Swiss values, qualities, characteristics such as Humanitarian Switzerland, confidentiality,

transparency, reliability, precise organization, direct democracy or understatement. Three Swiss values are at the core of the organization: independence, impartiality and neutrality. Findings of the interviews have shown that these values are a true source of identification for foreign staff. However, some controversial values within the organization have been identified, e.g. the close ties to the Swiss state (perceived as a curse and a blessing) as well as internationalization and decentralization policies show some conflict potential. A local is not necessarily better accepted than a Swiss in the field, where the Red Cross/Red Crescent is still mainly perceived as a neutral Swiss organization. Another value conflict has been found in the tension, perceived by some delegates, between discretion and secrecy vs. a lack of transparency.

The mono-national Swiss Assembly or board is unanimously considered as a positive aspect to impede a UN kind of incapacity to act. Finally, the internationalization of staff has also brought some - not uncontested - changes into the organizational culture.

In the following discussion, **Cássia Costa**, herself a coordinator of humanitarian projects, raised the question whether the questioning of Swiss values has invoked consequences for the ICRC. Prof. Sánchez connected this issue to the capability to raise funds, especially regarding the main donor, the USA, where funding of international humanitarian organizations are currently re-evaluated, which might escalate to a funding bottleneck for the ICRC.

The last talk of the event was held by HSG alumnus **Lodovico Brioschi**, CFO and COO at AMARO, on entrepreneurship in Brazil and his own start-up. In 2012, Mr. Brioschi founded AMARO with a Swiss and a Brazilian Partner in São Paulo. AMARO is an online fast fashion brand for women's apparel. Besides bringing the latest international trends to Brazil in monthly collections, the company has built up a reputation of high quality products at a reasonable price. The extremely fast delivery is a special feature. In São Paulo, AMARO clients normally receive their product the same day. The company produces the majority of their cloths in-house. Recently, AMARO has built up an Omni-channel strategy with guide shops in selected shopping centers. Customers can experience the products in a physical store and get fashion advice. The purchase, however, will be performed online on laptops in the store. Since 2012, AMARO has grown constantly, generating revenues in double digit millions of dollars in 2016, and currently counts around 200 employees.



Lodovico Brioschi also talked about his personal experience of building up a company in Brazil. *"When we arrived in 2012, the party was already over"* stated Brioschi relating to the economic "Bonanza" that Brazil has experienced in the 2000s. It had become more difficult to convince investors for the Brazilian market. On the other hand, the crisis offered opportunities for AMARO as well. Thanks to the low rents for spaces in malls, they could install their flagship stores in some of the most prestigious shopping malls in São Paulo.

Another well-known and decisive aspect of doing business in Brazil is the high degree of bureaucracy. Especially tax law is one of the most complex and fastest changing globally. Furthermore, labor laws are prone to inhibit high mobility of employees in the market.

Finally, Mr. Brioschi emphasized that AMARO regularly employs University of St.Gallen exchange students for internship positions. *"We see that the HSG students are very result oriented and are to a high degree able to develop solutions independently. These are attributes we highly appreciate in our start-up environment."*