

Award Ceremony of the I Edition of the "Jaime Fernández de Araoz Corporate Finance" Award.

*Speech by Alejandro Fernández de Araoz
Madrid, 13 de junio de 2005*



Your Royal Highnesses, Secretary of State, dear Luisa, dear friends:

Talking about such personal feelings as the ones you experience when you lose a brother, as I did Jaimón, or what it means to lose your husband, your son, or the person who was your father, inevitably causes reserve, because these feelings are so personal that they are difficult to share with anybody else.

Jaime was a happy, intelligent soul, he had a different kind of smile, a sharp sense of humour...he was satisfied with his achievements and his professional career, fruit of his tenacity and, let us say it, of his great human and professional capabilities. He was a source of joy to all who knew him and who feel his loss enormously, and because of this I believe he will be remembered as a person who contributed value to his world and to the people around him.

The loss of a loved one sometimes provokes a feeling of rebellion or of wanting to fight to preserve their memory, which is simply the presence of the person who left us in a different form. Life goes on because the physical body survives the pain, but sometimes the soul does not, and this is what must be prevented in memory of Jaime. This is why we are here today, to remember him.

The initiative to create the "Jaime Fernández de Araoz Corporate Finance Award" was born out of this desire to keep the memory of Jaime alive, through a project that was useful for society and that was linked to his professional activity.

And why does this award focus on the study of corporate finance?

Apart from the technical areas, and the specific and undoubtedly fascinating questions that "Corporate Finance" raises, underlying our family's consideration was a more general concern which was nothing less than our company's competitiveness and the efficiency of our markets.

In the market economy and in the context of globalisation that today's companies operate in, let's not kid ourselves: the welfare of Spanish citizens will depend to a large degree on our companies being able to finance themselves in a reactive and competitive manner in order to be able to meet effectively all the challenges that they are facing.

There are many factors involved in this process, significant among them that of being able to rely on a favourable legal code, correct operation of market oversight and of the law courts.

And for these reasons, both our government and our legislators have the extraordinary responsibility of putting in place the objective conditions that enable companies to meet these challenges.

When we created this Award, we believed that Corporate Finance studies had a great deal to say about and contribute to this consideration. The packed daily schedules of politicians and businessmen do not always offer the most ideal conditions in which to undertake a rigorous and cool analysis of these topics.

And this, in a nutshell, is our contribution to the process: to bring researchers, politicians and businessmen together to attempt to identify some of the key areas for making better businesses in a better Spain.

Many months of effort were put in and, having received 35 papers from 50 authors covering highly diverse topics (takeover bids, investment analysts, company valuation, corporate governance, accounting, family businesses), the Jury reached a unanimous decision to give the award to Professors Arturo Bris, of Yale University, and Christos Cabolis, of the University of Athens, for their joint paper:

“The value of protecting the investor: evidence based on international mergers”

I do not wish to bore you with the details of the CVs of the winning authors; suffice it to say that they are simply impressive. As a Spaniard, I am proud that we have a researcher like Arturo Bris who, at 38 years of age, already has a reputation in one of the most prestigious universities, Yale, where he is a professor. His publications rank amongst the best in the world in the area of Corporate Finance. Arturo, Christos: our warmest congratulations to you both.

Presenting the winning paper to you all, I should like to begin by highlighting that the call for papers placed particular relevance on papers submitted being “eminently applicable”. The topic chosen by the winning authors covers an area that is of great current relevance, i.e. investor protection and good corporate governance and the relationship that these areas have with the economic welfare of a country and how they influence company valuations. In this respect, the authors have analysed to what extent it can be concluded that in countries where the legal system affords better protections to investors, the financial markets are more developed; companies invest more and in a better fashion; their valuation increases, and the economy grows more rapidly.

The Project was by no means easy and was certainly ambitious, running into two fundamental obstacles on the practical front:

- *Firstly, academic studies which state that countries with better corporate governance have more efficient financial systems base this statement solely on comparisons between countries; therefore, it may be that the relationship between financial development, investor protection and good governance are*

influenced by other, non-observable variables, for example the enterprise culture of the country.

- *Secondly, this evidence has been used by many countries (Spain among them) as the basis for legal reforms aimed at improving investor protection. Unfortunately, there is no academic basis for concluding that improved investor protection in a given country has an effect on its financial and economic development.*

In order to measure the quality of investor protection systems and corporate governance in a country, Bris and Cabolis have focused on international mergers, analysing the differences that exist between the indices of investor protection in the acquiring company country and in the acquired company country, and in the accounting systems of both countries. The aim of the work has been to analyse the investor protection system, it has the value that shareholders in the acquiring and acquired companies give to the merger.

The authors conclude that investors value more highly those companies in which investors are better protected against expropriation or opportunistic behaviour by majority shareholders or managers, which leads to a higher acquisition premium. And they therefore conclude that international mergers create value by adopting better, not worse, investor protection systems. Remember the saying “brevity is the soul of wit”. I am not at all sure that my presentation of the work of professors Bris and Cabolis has been witty, but I do assure you that my intention was to be brief!!

So taking this into account, on my family’s behalf and my own, all that remains for me to do is to express our gratitude:

- *For the words of enormous affection and admiration that we have received, and continue to receive from you all, for Jaime, which mean so much to us and which have been at the forefront of our minds when organising this Award.*
- *To Citigroup and particularly to Alberto Ibañez for the care, enthusiasm and dedication they have put into this project.*
- *To the Spanish Institute of Financial Analysts for its extraordinary work running the Award secretarial department, and in particular to Aldo Olcese and Carlos Gascó.*
- *To the Areces Foundation, and particularly to Isidoro Álvarez for so kindly lending us this excellent auditorium.*
- *To all the Jury members for their time, good judgment and invaluable advice.*
- *To the 50 authors who have presented 35 papers, with all the dedication and praiseworthy effort involved.*
- *To Carlos Solchaga, for being with us today and sharing thoughts that are the fruit of his long experience and thorough knowledge of this world of economy and finance.*
- *To all the friends who have attended this ceremony, and*
- *To Their Royal Highnesses the Prince and Princess of Asturias, for their care and kindness, for honouring us with their presence and for honouring the memory of Jaime by presiding over this ceremony.*

Thank you very much