

**CORPORATE  
OWNERSHIP & CONTROL**

**КОРПОРАТИВНАЯ  
СОБСТВЕННОСТЬ И КОНТРОЛЬ**

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## **EDITORIAL**

*Dear readers!*

This issue of the journal *Corporate Ownership and Control* delivers to the reading audience the most important issues of corporate governance, such as shareholders' interests, earnings management, corporate social responsibility, shareholders' and stakeholders' rights, board accountability, board composition, ownership structure.

We have a trend of well-developed international contributions. There are papers on corporate governance from many countries of the world. These are Japan, the USA, Sweden, Italy, Spain, Australia, Brazil, Malaysia, China. In this issue we decided to continue exploring an Asian perspective of corporate governance as a regional corporate governance issue.

Our efforts in publishing the journal are focused at the new issues of corporate governance. Despite we try to be on the forefront of corporate governance research with regard to the well-known issues such as board of directors, ownership structures, corporate control mechanisms, earnings management and others we do our utmost to set a forum for discussion about the new issues. One of such issues is corporate governance in financial companies and banks.

A special section in one of the upcoming issues of the journal will be devoted to corporate governance in banks and financial companies. Therefore, all who have an expertise in corporate governance in banks and financial companies are welcome to submit papers.

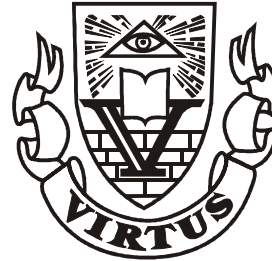
Besides that we start a new series of books. Each book will be devoted to a specific issue of corporate governance. The first book is devoted to corporate governance in banks. The book will be published by March 2010. The contributors team includes experts more than 15 countries of the world and we hope to catch the most actual problems of corporate governance in banks during a crisis.

We are open for your suggestions in the new fields the books could be written and hope for the new contributions to the journal!

# CORPORATE OWNERSHIP & CONTROL

Volume 7, Issue 1, Fall 2009

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OWNERSHIP STRUCTURE AND THE RISK-RETURN PROFILES OF JAPANESE STOCKS 9

***Kaoru Hosono, Hideaki Murase, Ikuko Samikawa (Fueda)***

This paper empirically investigates how ownership structure of Japanese firms affects the risk-return profiles of their stocks. We find significant relationships between ownership and firms' operational performance, i.e., the ownership of financial institutions is associated with poor performance while the ownership of large shareholders is associated with the opposite. However, comparing the returns on portfolios sorted by ownership, we find no significant relationships between ownership and the rates of returns. Specifically, excess returns are insignificant after controlling for three risk factors (i.e., market, size, and value) while factor loadings are significantly different across portfolios, i.e., the ownership of financial institutions is associated with low-risk, low-return portfolios while the ownership of large shareholders is associated with the opposite.

APPROACH TO CORPORATE GOVERNANCE AND SUPPORTING SHAREHOLDERS' INTERESTS 18

***Elena F Pérez Carrillo***

Shareholders interests play a relevant role in corporate governance. Notwithstanding the different legal regimes across the globe, there is a trend towards converging mechanisms protect shareholders through disclosure and other instruments. Simplification of voting process and procedures to ease the taking into account of shareholder preferences are matters still to be resolved.

CORPORATE GOVERNANCE, MINORITY SHAREHOLDERS AND DYNAMIC VALUE:  
THE ITALIAN EXPERIENCE OF THE FREEZE-OUT

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***Mauro Romano***

The principal subject of this paper is the analysis of the main corporate governance profiles that are directly or incidentally affected by the freeze-out and the study of the positive and normative factors impacting the determination of the strike price of the freeze-out. The work first aims to investigate the effect that can be generated by the forced exclusion of minority shareholders during the processes of acquisition and replacement of corporate control and, secondly to examine the share value drivers of the freeze-out, with the aim of combining the legislative functions with the laws of economic dynamics. The regulatory framework, which in Italy has recently undergone a major evolution as a result of approval, with Legislative Decree dated November 19<sup>th</sup> 2007 n. 229 of the 2004/25/EC Directive concerning tender offer process, is the background to issues of economic nature which will be investigated in this work.

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**Pablo Rogers, José Roberto Securato**

This article objective, considering Brazil as a case study, was to assess the impact of higher levels of governance on the volatility term structure of the stocks. In methodological terms, it were developed two indexes of daily returns in the Brazilian stock market called IEPG-I and IEPG-S, and it was analyzed the volatility term structure with adjustments on the GARCH family models. The results were statistically surprisingly, highlighting: 1) higher levels of governance had positive effect in the reduction of the short and long term volatility; 2) the volatility of the companies with the worst practices of corporate governance seems to be more reactive to the market; 3) the persistence of the volatility of the companies with good practices is higher than that of the companies with worse practices; 4) the convergence speed of the volatility of the companies with good practices is lower than that of the companies with worse practices; and 5) the presence of information asymmetry or leverage effect in companies with worse practices of corporate governance and absence in companies with better practices of governance.

CORPORATE GOVERNANCE AND ADR EFFECTS ON EARNINGS QUALITY IN THE BRAZILIAN  
CAPITAL MARKETS

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**José Elias Feres de Almeida, Gerlando Augusto Sampaio Franco de Lima,  
Iran Siqueira Lima**

This study aims to verify the impact of earnings interactively with corporate governance levels of BOVESPA and ADR listing on the NYSE on firms' market value measured by market-to-book ratio. Our sample is composed by 231 public companies' listed and unlisted on special segments of governance at BOVESPA and on the NYSE from 2000 up to 2006, totalizing 1.253 observations. Methodologically, we present results of different estimation procedures such as Pooled Ordinary Least Squares (POLS) and panel data with Random Effects (RE) and Fixed Effects (FE) following Breusch-Pagan and Hausman Tests to indicate the best estimators. The results indicate that: i) BOVESPA's corporate governance levels improve the content information of accounting earnings reported and enhance the coefficients; ii) earnings of firms' which trade ADR on the NYSE are not relevant but, have positive coefficients and; iii) the content information in earnings of firms listed on Level 2 and level New Market are more relevant from firms on Level 1 or unlisted. This paper contributes with the discussion about accounting information relevance to the market, investors, regulators and practitioners, as well as, the role of corporate governance to improve information quality.

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**Mario Mustilli, Filomena Izzo**

Corporate Governance relationships has become more relevant to the changed nature of the firm, the role of human capital has become very important in managing the firm in those environments where the source of competitive advantage is strongly based on knowledge and intangible resources as in the case of complex product systems industries. The important role of this intangible asset in managing the complex environment has amplified the incompleteness of the agency theory, changing the nature of the Corporate Governance relationships and highlighting the role of the human capital. This paper attempts to describe, using Problem Solving Behaviour approach, how the Corporate Governance relationships work in high competitive and complex environments as in case of the business aviation industry.

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**Marita Naude**

The value added contribution of this article is twofold. Firstly, this article advocates that Board members, Directors and Managers must have a clear understanding that the mental models of employees and themselves influence the effectiveness of strategies implemented within an effective Corporate Governance (CG) and Corporate Social Responsibility (CSR) framework. Secondly, this

article uses data collected and findings from participants in Australia and South Africa regarding the factors (from their mental model) that retain them in their organisation as one example of how Board members, Directors and Managers could explore the mental models of their employees regarding retention and then develop strategies (within a CSR framework) based on a solid CG foundation.

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CORPORATE GOVERNANCE, AUDIT QUALITY AND RISK TAKING IN THE U.S. PROPERTY CASUALTY INSURANCE INDUSTRY 84

***Chia-Ling Ho, Gene C. Lai, Jin-Ping Lee***

This paper examines the impact of corporate governance and audit quality on risk taking in the U.S. property casualty insurance industry. The evidence shows that some corporate governance variables, as well as some audit quality variables are related to risk taking. We find that longer board tenure is associated with low underwriting risk. But the higher percentage of financial experts on the board is associated with high underwriting risk. The possible reason is that financial experts possess a deep understanding of a firm's financial situation and may encourage the management to take higher risk in anticipation of a higher return for a positive net present value project. The results are consistent with agency theory and wealth transfer hypothesis in that high risk taking is consistent with shareholder interest maximization.

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***Cheaseth Seng***

This study contributes to the growing literature on corporate governance index (CGI) by investigating the impacts a board governance index (BGI) developed in context of government business corporations (GBCs) on their financial performance. In addition, the study tests relevant corporate governance theories, namely agency, networking and resource dependence theories, in the context of GBCs. Concurrently, the study also conducts an exploratory investigation of the relationship between board governance arrangements and emphasis provided by GBCs' management to processes and systems for discharging accountability requirements (accountability-emphasis). The study found that the current board governance arrangement of GBCs is positively related to financial performance.

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COERCION, COPY-CATS, AND COLLEAGUES: STAFFING THE BOARD OF THE IPO COMPANY 108

***Anna Thorsell, Barbara Cornelius***

122 initial public offerings (IPOs) occurring on the Stockholm Stock Exchange from January 1996 until September 2006 have been examined to assess the impact of institutional isomorphism on the selection of directors for boards facing the transition to listed companies. A high level of union representation as well as the restructuring of boards prior to an IPO and in anticipation of legal changes gives strong support for the influence of coercive isomorphism on IPO firms. Companies within industry sectors make similar choices with regard to their directors, their choices being dissimilar from their associates in other industry groupings. This supports the concepts underlying mimetic isomorphism. Finally normative isomorphism is largely supported by the reliance of corporations on a closed group of directors with similar educational backgrounds. All in all, societal and regulatory pressures, as modelled under institutional theory, are influencing the processes of corporate governance during an IPO.

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OWNERSHIP STRUCTURE, BOARD COMPOSITION AND INVESTMENT PERFORMANCE 120

***Johan E. Eklund, Johanna Palmberg, Daniel Wiberg***

This paper explores the relation between ownership structure, board composition and firm performance among Swedish listed firms. The descriptive statistics show that Swedish board of directors has become more diversified in terms of gender. The analysis shows that board size has a significant negative effect on investment performance. Gender diversity has a small but negative effect on investment performance, and the same holds for CEO being on the board. When incorporating all

the explanatory variables into the same equation the negative effect of larger boards dilutes the effect of gender diversity and having the CEO on the board.

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*Huson Johar Ali Ahmed, IKM Mokhtarul Wadud*

This study re-examines whether the structure of share ownership by both directors and institutional ownership provides explanation for firm performances. These relationships are modelled and estimated using GMM based dynamic panel data over a period from 1997 to 2001 with a sample of 100 CI components companies listed on Main Board of Malaysia. The findings provide strong evidence of simultaneity between firm performance and managerial ownership. Although an insignificant relationship between firm performance and institutional ownership is observed, the institutional holdings provide strong substitute for managerial ownership with a strong negative relationship between managerial ownership and institutional ownership. This is in line with the managerial incentive hypothesis, which suggests that manager's share in the firm's ownership leads to better performance and the monitoring substitute hypothesis, which suggests that managerial ownership could be effectively replaced by institutional ownership.

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*Zhong Qin, Xin Deng*

This paper explores the impact of ownership structure on performance of family businesses at its early developmental stage in a context of under-developed market environment. Using a survey data of 296 private family firms in Ningbo, China, we find both management and single largest shareholder's ownership is positively related to firm's performance. However, family's shareholding does not have significant impact on performance. Further inquiry on firm's willingness to give shares to managers who are not family members indicates that while nearly half of the firms are willing to provide shares to professional managers, weak corporate governance mechanism and under-developed market may discourage such practice.

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