

**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 corporate governance and firm valuation, stock options, internal audit, corporate ownership and performance, managerial ownership and firm valuation, family ownership and performance, mergers and acquisitions, corporate law and regulation.

As a part of good tradition we have focused on a wide international representation of contributions. We have contributions made by authors from many countries of the world both developed and developing. These are papers by authors from Japan, the USA, Spain, Australia, Taiwan, Qatar, Brazil, Denmark.

In this issue we were fortunate in composing a section devoted to corporate governance in a particular region with application to Japan. This is the first time for our journal to publish the special section on corporate governance in Japan. This is a result of efforts undertaken by us to get and develop very good and future-oriented relationships with corporate governance experts from Japan. I think you will enjoy reading the papers on corporate governance in Japan.

In this issue of the journal we came back to the traditional issue of corporate governance – ownership structure as a special section. Major attention is paid to the link between ownership structure and performance. Our contributors were fortunate in generating new ideas and made new findings in this way.

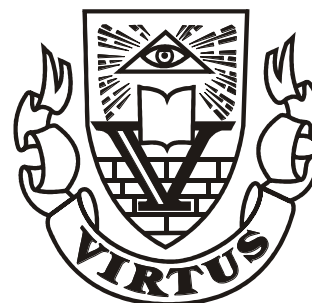
Our strategic purpose is to develop the new concepts and practices how to overcome the financial crisis with the corporate governance toolkit including mechanisms, instruments and participants. Your contributions on this issue would be very valuable for us.

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 2, Winter 2009

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Ai-Fen Cheng, Tao-Hsien Dolly King

Bondholder governance through the use of bond covenants and the interactions between shareholder and bondholder governance mechanisms has been recently highlighted in the corporate governance literature. In this paper, we study bondholder governance mechanisms through takeover-related bond covenants (i.e., poison puts), confirm with agency theory on the characteristics of firms that are more likely to use these covenants, and emphasize the importance of bondholder governance in the overall structure of corporate governance. We find that poison puts are often bundled with asset sale, payout, and financing restrictions, which is consistent with agency theory. We also find that high growth firms, large, profitable, low-leverage firms are more likely to use poison puts. In addition, our results on free cash flow, insider and institutional ownership provide support for agency explanation. Lastly, we find that poor bond market performance and good equity market performance are likely to motivate the incidence of poison put bond issuance. Volatility of interest rate and volatility of bond index returns motivate more issues of poison put debt. Finally, greater market term and default premiums promote the use of poison puts.

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Ohannes George Paskelian, Stephen Bell

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Bruce A. Rosser, Jean M. Canil

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Marion Hutchinson, Mazlina Mat Zain

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Andre Carvalho, Julia Nicolau

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Wenjuan Ruan, Gary Tian, Shiguang Ma

This paper extends prior research to examine the managerial ownership influences on firm performance through the choices of capital structures by using a new sample of S&P 500 firm in 2005. The empirical results of OLS regressions replicate the nonlinear relationship between managerial ownership and firm value. However, we found that the turning points had moved up in our sample compared with previous papers, which implies that the managerial control for pursuing self-interest, and the alignment of interests between managers and other shareholders can only be achieved now by management holding more ownership in a firm than that found in the previous studies. Managerial ownership also drives the capital structure as a nonlinear shape, but with a direction opposite to the shape of firm value. The results of simultaneous regressions suggest that managerial ownership affects

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Carmen Galve-Górriz, Vicente Salas-Fumás

This paper helps to theorize the link between family generation and the characteristics, behaviour, management and governance of the firm. The paper also answers the question: to what extent is competitive position affected by each generation? The paper overcomes the limitation of the cross-sectional data, since the investigation is applied to data from Spanish firms during the period 1994 to 2005, which is much more appropriate when discussing developmental models. Our results confirm the greater degree of complexity of the family firm, as the ownership and the running of the business is passed to future generations. However, and contrary to all expectations, family firms in the sample have a high degree of concentration of ownership, regardless of the generation and a greater complexity in the business does not give rise to the incorporation of external partners in the company's share capital. In fact, third generation companies have no external partners, with 100% capital remaining in the family.

**THE NON-LINEAR EFFECTS OF OWNERSHIP STRUCTURE
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Rami Zeitun

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Nobuyoshi Yamori, Kozo Harimaya

With the number of bank consolidations increasing around the world since the 1990s, several studies have examined what factors drive banks to consolidate, and some argue that bank managers who have a motive of empire buildings choose mergers. In this study, we deal with mergers among Japanese small mutual banks (credit associations or Shinkin banks) during the period 1996 to 2005. Japanese credit associations have been experiencing an unprecedented wave of consolidation, with their number decreasing from 410 (March 1996) to 292 (April 2006). Interestingly, unlike stock companies, mutual companies are often expected to be weak in terms of

disciplining managers. If so, mutual banks tend to choose inefficient mergers at the expense of other stakeholders. Here, we use the stochastic frontier approach (SFA) to obtain “cost efficiency” proxy. We find that while the efficiency of acquiring credit associations decreases during the merger period, mergers do ultimately improve efficiency. Based on our results we find that raising efficiency, not for building empires, is an important goal for such credit association mergers.

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Kosuke Seino, Fumiko Takeda

This article investigates stock market reactions to announcements related to the introduction of the Financial Instruments and Exchange Law or the so-called Japanese Sarbanes-Oxley Act (J-SOX), which was enacted to reinforce corporate accountability and responsibility. We find that the announcements leading to the passage of the J-SOX raised stock prices of firms listed on the First Section of the Tokyo Stock Exchange. Another finding is that firms with a high ratio of foreign shareholders or leverage experienced more positive stock price reactions. By contrast, whether the firm was audited by Big 4 audit firms did not seem to matter to investors. In addition, large firms tended to have more negative stock price reactions than small firms.

HAS THE THREAT OF A TAKEOVER IMPROVED THE MANAGEMENT OF TARGET FIRMS?
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Timothy A. Kruse, Kazunori Suzuki

This paper examines the new development of hostile takeovers and shareholder activism in Japan. The hostile bidders claim that the threat of takeover which they pose on the management of a poorly managed company is not only to their benefit, but also to that of the target company in general, because the management will run the company better to maximize its value. Nearly a decade having passed since the first-ever hostile TOB attempt in Japan by M&A Consulting (MAC), an investment fund led by Mr. Yoshihiro Murakami in January 2000, we examine the stock price and operating performance of the companies whose shares were bought by the MAC. We find that the shareholders of the target companies indeed enjoyed large positive abnormal returns in the two years following the news. We report, however, that their operating performance declined over the four fiscal years following such news. There is little evidence so far that the threat of a hostile takeover improved the actual operating performance of the target firm.

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