

**CORPORATE  
OWNERSHIP & CONTROL**

**КОРПОРАТИВНАЯ  
СОБСТВЕННОСТЬ И КОНТРОЛЬ**

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## **EDITORIAL**

*Dear readers!*

Summer of 2010 was a very hot season for regulators and practitioners attracting a strong interest of academics.

The US initiatives in corporate governance regulation came first in the board practices which come as a primary field of research including *Corporate Ownership and Control* journal. Thus, U.S. regulators will let investors owning 3 percent of a company nominate directors on corporate ballots, a step that may help shareholders oust board members accused of overpaying executives and failing to boost shares. The Securities and Exchange Commission required that companies put investor board candidates on the proxy statements sent to stockholders before director elections. Investors or groups that meet the ownership threshold for three years will be eligible to offer nominees. The SEC acted in response to investor complaints that company-selected directors failed to rein in compensation and risk-taking that led to more than \$1.79 trillion of financial- company writedowns during the credit crisis.

Another point of view for proper research was the issue of the stakeholder participation in corporate governance. Earlier this year the European Commission published a green paper titled "Corporate governance in financial institutions and remuneration policies". The main issues to discuss were the issues of the stakeholder involvement in corporate governance and the issue of remuneration policy. The recent issue of the journal contains some very interesting findings regarding those issues underlined by the European Commission too.

The same issue, namely Director remuneration, has been stressed this Summer in the UK too. The Financial Services Authority has published a consultation paper in which it sets out proposed changes to its Remuneration Code in the light of the Capital Requirements Directive and the Financial Services Act (2010).

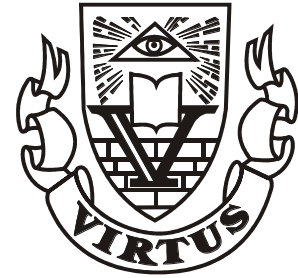
The role of shareholders in the compensation setting has been underlined in the USA. The Wall Street Reform and Consumer Protection Act was signed in July by the President. The Act will bring about the most significant financial regulatory reform since the 1930s and also includes corporate governance measures. For example, Section 951 provides for a shareholder vote on compensation disclosure and Section 952 sets out requirements for compensation committee independence.

As we see the issues of the board practices, director independence, remuneration and stakeholder participation in corporate governance have become the most important for regulators and practitioners. The recent issue of the journal *Corporate Ownership and Control* pays attention to those issues too, as well as to the issues of corporate ownership and control, financial reporting, etc. I hope that you will enjoy reading the journal and come back to us with your outstanding papers again!

# CORPORATE OWNERSHIP & CONTROL

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***Mohammad Azim***

This paper investigates the role of monitoring mechanisms in a corporate governance structure, focusing on listed companies in a developing country, Bangladesh. Specifically, it examines whether different interrelated monitoring mechanisms - board of directors and committee, management and external auditors - affect firm performance. This research found the possibility of having a substitution or complementary links in monitoring mechanisms that explain why there is no consistent empirical evidence between individual monitoring mechanisms and firm performance. This study has policy implications for the Bangladeshi corporate environment. Progress of implementation of the guidelines appears to be reasonable. However, credibility of the reported figures and quality of implementation remain open to discussion. To what extent these status reports reflect improved governance or are largely a form of paper compliance is a debatable issue. This research also suggests that when considering any change in corporate monitoring, the Bangladeshi government should take into account the nation's business, social structure, culture and legal practices.

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***Charl de Villiers, Chris van Staden***

Ethical investors often exclude firms that participate in so-called controversial activities, such as tobacco, alcohol, firearms, gambling, the military, and nuclear operations, from their investment portfolios. Firms excluded in this way should experience an increase in their cost of capital and a reduction in their share prices. We use the KLD database to identify S&P 500 firms involved in controversial activities. Our results show no difference between controversial activity firms and other firms regarding relative share price and we find that the cost of capital of controversial activity firms is in fact lower. We conclude that ethical investing, of the type that excludes controversial activity firms, does not influence the capital markets in the expected way.

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***Ralph DeFeo, Ehsan Nikbakht, Andrew C. Spieler***

The purpose of this paper is to determine if companies that chose to incorporate Economic Value Added (EVA®) as part of their executive compensation package tend to have better corporate governance than similar firms who have not chosen to use EVA®. EVA® is an economic profit metric developed by Stern Stewart & Co., which is calculated by taking the Net Operating Profits after Taxes (NOPAT) and subtracting a capital charge from it. Through the use of binary logistic regression the strength of several key corporate governance measures were tested in order to ascertain whether they have a significant

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**Nicholas Andrew, Mark Wickham**

The relationship between credible Corporate Social Responsibility (CSR) performance and desirable firm outcomes is well established in corporate governance literature. Over the past two decades in particular, there has been an increased recognition of this relationship in the business community and a concomitant increase in the quantity and detail of CSR activities being voluntarily reported by corporations has been observed. The rationale for the increasing levels of voluntary CSR reporting has been attributed to two main corporate strategies: to conform to the expectations of the society and to socially legitimise their operations to their salient stakeholder groups. Whilst there has been extensive academic interest in the concept of CSR, it has focused almost exclusively on normative definitions of the concept, and/or the presentation of empirical evidence that details ‘why corporations should report their CSR activities’ and ‘what CSR activities they should report’. What is lacking the literature, however, is a focus on the question as to ‘how do corporations strategically report their CSR activities?’ We find that there is evidence to support a ‘Core/Periphery Model’ of strategic CSR disclosure, which we feel provides a framework for predicting how corporations will voluntarily disclose their CSR performance given the issues, events and/or crises that affect their industry environments.

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**Fabio Gallo Garcia, Elmo Tambosi Filho, Luiz Maurício Franco Moreira**

There is a strong tendency in global markets towards an enhanced level of corporate transparency regarding the activities of companies and, as a result, information on their performance. The Purpose of this study is to analyze the relationship between greater disclosure levels and shareholder value creation. Increasing levels of disclosure are required from companies’ management before shareholders and the society in general. Obscure practices that fail to take into consideration the best interests of shareholders increase risks and cause shares to lose liquidity. The São Paulo Stock Exchange’s “*Novo Mercado*” (“New Market”) emerged from the intent to improve the Brazilian stock market by adopting best practices in corporate governance, adding transparency to disclosed information, and heightening the respect for the interests of shareholders, whether they may be minority or not. The “*Novo Mercado*” intends to foster a differentiated environment in which companies committed to corporate governance are recognized and can benefit from better stock prices, resulting in lower placement costs and increased liquidity. Our research will assume that companies with *American Depositary Receipts* - ADRs are committed to a higher level of disclosure as a result of the requirements of the *Security Exchange Commission* – SEC, and the *Financial Accounting Standards Board* - FASB; an empiric study about these firms will be performed. We will determine, through a Study Event concerned with cases where ADR have been issued, which consequences of the commitment to higher levels of disclosure as regards shareholder are responsible for value creation, and what are the reflections on the stock price quoted in the Brazilian market.

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**Mazlina Mustapha, Ayoib Che Ahmad**

This paper tests the effect of managerial (inside) and block-holders (outside) ownership in relation to agency theory in Malaysian business environment. This study tests the agency relationship in different culture and social contact and provides evidence whether agency theory in non-western organizations have equal impact in Asian organizations. Consistent with agency theory and the convergence of interest hypothesis, managerial ownership (insiders) in Malaysia indicate a negative relationship with the demand for monitoring. This finding may be due to the fact that as the managers are also the owners, there is less conflict, less information asymmetry and less hierarchical organization structure in the companies, which lead to lower monitoring costs. However, another ownership structure, outside block-holders appear to demand more monitoring. This positive relationship may be explained by their effort to compensate their lack of involvement in the daily transactions and internal decisions of the company, especially in the concentrated business environment in the country.

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*Norhani Aripin, Greg Tower, Grantley Taylor*

This study examines the relationship between ownership concentration and the extent of financial ratio disclosures (EFRD) in the 2007 annual reports of Australian listed firms. Using agency theory as theoretical background, it is suggested that firms with more concentrated ownership structures are less likely to provide voluntary disclosure of financial ratios information. The univariate tests demonstrate that profitable firms, those firms audited by Big4 auditors and firms belonging to financial services industry communicate more financial ratio information. OLS regressions show that more dispersed shareholding firms' are significantly associated with EFRD. Profitable and larger firms audited by independent and Big4 audit firms additionally reported more extensive financial ratio information.

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*Paola Schwize, Vincenzo Farina, Valeria Stefanelli*

Using a large sample of European listed Companies and their Directors our study supports the hypothesis that European corporate governance do not yet converging towards a common model. Our results put in evidence in fact the existence of three dominant corporate governance profiles in European listed companies, different each others. The determinants of these profiles depend on the typical governance system adopted by the same companies and on country's culture and history; as a consequence, each of them has a own attitude of the board, in terms of structure, organization and skill mix characteristics. Finally we suggest some important implications on European governance practices.

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*Hafiza Aishah Hashim, S. Susela Devi*

This paper examines the relationship between the role of non-executive (independent) chairman and the quality of reported earnings. Recent corporate governance reforms recommend firms to appoint an independent leader to ensure the success of a split leadership structure (The Combined Code on corporate Governance, 2006; Higgs Report, 2003). Research on leadership structure to date has tended to focus solely on role duality and find weak or insignificance relationship between role duality and financial reporting quality. Although separating the roles of the chairman and the CEO seems appropriate, researcher argue that it would not necessarily lead to independence of the board if the chairman is not independent. Consistent with recent recommendations to strengthen board leadership by appointing an independent chair, this study evidences a positive and significant association between non-executive chairman and earnings quality in Malaysia. The study suggests that the non-executive status of the chairman is an important mechanism in enhancing the board's independence, thus improving earnings quality.

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*Alberto Barbesta, Giancarlo Giudici, Stefano Lugo*

In order to comply with listing requirements and overcome information asymmetries, listing companies may be encouraged to adapt themselves with market standards ('isomorphism') in the setting of governance devices in order to reduce the perceived uncertainty and obtain legitimacy towards investors. In this work we evaluate the isomorphism of IPO companies with respect to the board characteristics (i.e. board size and members' age). By analyzing a sample of 121 companies listed from 1999 to 2008 on the Italian Exchange, we find that mimetic strategies are frequent in IPO companies, and that the majority of

them exhibit a reduction in the differences of board characteristics in the year after the flotation, compared to listed firms in the same sector. The percentage of mimicking companies is even larger if we consider only companies that introduce changes in the board composition. Multivariate analyses suggest that isomorphism strategies are targeted to signal the IPO firm's quality, and are an alternative to issuing underpriced shares.

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***Giulia Romano***

This study aims to: (1) monitor the evolution of corporate governance practices in Italian listed companies; (2) evaluate the formal and substantial compliance to the Corporate Governance Code; (3) define if listing segment/market (and consequently also capitalization) is significantly related with the adoption of best practices. The research arose from the analysis of data contained in an unpublished source of information made available by the public authority responsible for regulating the Italian securities market. We find that nearly every listed company adopts the Code and its most important best practices. However, we find some contradictory discrepancies. We also find that the adoption of the Code is significantly related to listing segment/market.

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