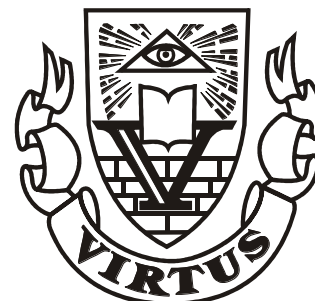


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Björn Hinderlich

This paper covers the question if and how incentive schemes work evaluated by their impact on company performance (market capitalization and profit before tax). Based on a unique data set for German executive directors of DAX companies it can be proved that neither short (STI) nor long term incentives (LTI) plans necessarily support the company success. It rather depends on the efficiency of each plan, i. e. on its design. Special attention has to be paid on target setting. Short term focused objectives often miss their targets, whereas long term ori-ented objectives significantly support the company success. To solve the prisoner's dilemma between employers and employees by a quasi-endless game, additional measures may be helpful, such as share ownership guidelines.

THE PARADOXICAL GENESIS OF TOO-BIG-TO-FAIL 28

Thomas S. Umlauf

This paper developed two points. First, the economic history of the United States' past two hundred years indicates that financial sector regulation had, from c. 1800 onwards for about 150 years, been dominated by policies that benefitted small banks at the cost of large branching banks. This approach resulted in a fragmented banking sector dominated by small unit banks and characterised by fragility. Second, history shows that a significant share of legislation and bank regulation can be explained by the economic theory of regulation.

THE IMPACT OF STATE GUARANTEES ON BANKS' RATINGS AND RISK BEHAVIOUR 42

Jacob Kleinow, Andreas Horsch

State guarantees are supposed to have positive influence on banks' ratings as they provide an additional safety net to depositors while lending the guarantor's creditworthiness to the bank. Based hereupon, we research if and to what extent guarantees perceptibly affect market prices of securities issued by banks. Our results indicate that banks receive governmental rating subsidies of up to 7 notches depending on the region. Furthermore, literature suggests that guarantees and subsequent bailout expectations increase the risk appetite of banks enjoying this governmental support, as protected actors feel less incentivized to apply market discipline. Based hereupon, we consider the possibility of reversed causality: Is the probability of bailouts correlated to a bank's risk taking? Analysing the drivers of governmental support for different types of banks, we find that governments are particularly willing to bail out (traditional commercial) banks with low returns on investment, or weak share performance, and a higher exposure to risk.

INDEPENDENT BOARD OF DIRECTORS AND CORPORATE SUSTAINABILITY: A SOUTH AFRICAN AND NIGERIAN PERSPECTIVE **58**

Collins C Ngwakwe, Fortune Ganda, Akinyomi O. John

This paper examined the stance of independent directors on corporate sustainable development initiative in South Africa and Nigeria. This has become apposite considering the role of independent directors in corporate strategic decisions and performance. It is believed that independent boards strive to direct corporate decisions to protect the investors and thus improve financial performance. Given that sustainability initiative is currently occupying a vital strategic position in protecting firms against inherent and imminent climate change and financial risks, the paper undertakes a survey of South African and Nigerian companies to ascertain the role of independent directors on corporate sustainable development initiatives. Using a mix method of primary and secondary data analysis, the paper finds that independent boards in both countries of study understand the importance of sustainability; however a pragmatic stance on sustainability is more visible in South Africa where independent boards are members of and/or participate in nominating corporate sustainability committees. The paper suggests the need for improved detailed disclosure on sustainability in the Nigerian corporate annual reports; the Nigerian Stock Exchange may boost this initiative by establishing a social and environmental reporting index supported by an annual survey of company sustainability disclosure. It also suggests the need to include sustainability awareness and interest in the metrics that are used in the appointment of independent boards in Nigerian companies.

LABOR REGULATION AND CORPORATE GOVERNANCE: A COMPARATIVE OVERVIEW **69**

Mirella Damiani

The literature aimed at exploring labor regulation and cross-country comparisons has left partly unexplored two major points: the first concerns potential complementarities or substitutions between patterns of shareholder protection and labour regulation. The second point concerns the role of a comprehensive set of labour rules which contemplates not only employment-unemployment provisions and payoff rights, but also rules and institutional devices which influence employee investments in human capital and have the effect of tying the fortunes of the employee together with those of the firm. The paper offers a critical overview of some selected studies that have started at considering labour institutions for their influence on the 'balance' of power inside the firm, between owners, management, and employees.

MEASURING THE QUALITY OF BANKING SUPERVISION REVISITED: ASSESSMENTS BY GERMAN BANKS BEFORE AND DURING THE FINANCIAL CRISIS - this paper was extracted **84**

Stephan Paul, Stefan Stein, André Uhde

This contribution presents and discusses main results of a new survey on the assessment of supervisory quality among German banks. In particular, it is analyzed if and how supervised banks' perception of the quality of supervisory authorities and their instruments has changed due to the financial crisis starting in mid-2007. Subsequently, results from the recent survey are compared with findings provided by a former study carried out by the authors in 2006.

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