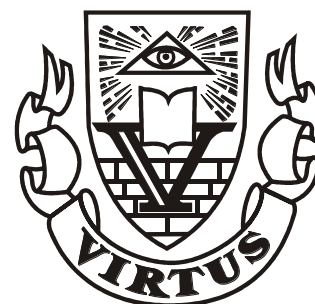


CORPORATE OWNERSHIP & CONTROL

Volume 6, Issue 4, Summer 2009

CONTENTS



Editorial 4

SECTION 1. ACADEMIC INVESTIGATIONS AND CONCEPTS

**RESPONSIBLE CORPORATE GOVERNANCE:
TOWARDS A STAKEHOLDER BOARD OF DIRECTORS?** 9

Silvia Ayuso, Antonio Argandoña

The central question posed in this paper will be how to organize board composition in order to ensure a responsible corporate governance both from a CSR and a good governance perspective. Adopting a stakeholder approach to corporate governance, we analyze the arguments given by different theoretical approaches for linking specific board composition with financial performance and CSR, and discuss the empirical research conducted. Despite the inconclusive findings of empirical research, it can be argued that diverse stakeholders on the board will promote CSR activities within the firm, but at the same time will increase *board capital* (which ultimately may lead to a better financial performance). Finally, we propose a model for selecting board members based both on ethical and pragmatic arguments.

**SHAREHOLDERS' ACCESS TO COMPANY'S INFORMATION:
TOWARDS ENSURING SHAREHOLDERS' MONITORING
RIGHT AND MINORITY SHAREHOLDERS' PROTECTION** 20

Junko Ueda

This article aims to revisit how minority shareholders' right to company's information can be secured under Japanese company law to execute their substantial rights (to collect proxies, to sue management, etc.) particularly in the process of mergers and acquisitions. Section I overviews the structure of shareholders' monitoring rights under Japanese company law against their historical background. Section II focuses on the shareholders' rights to company's information and its significance amongst shareholders' rights and its linkage with other shareholders' rights. Section III analyses leading cases before the Japanese courts regarding shareholders' rights of inspection. Section IV surveys the shareholders' right under Japanese company law to have access to company's information in parallel with their right to apply for the courts to appoint inspectors who investigate into company's business activities and financial situations. Section V assumes an expected shareholders' role in association with the other monitoring function ensured under company law and pursues a "good governance" system.

**THE DECREASE IN DIVERSIFICATION AND CORPORATE
GOVERNANCE: EVIDENCE FROM JAPANESE FIRMS** 28

Hidetaka Aoki

This paper analyzes the effects of firm performance and governance factors on the decrease in diversification of Japanese firms in the 1990s. We focus on the cases of the decrease in diversification, because many previous studies proved that diversification caused firm value discount. Adjusting an

excessive unrelated diversification would be an important topic, because the problems of low synergy between business units, inefficiency in management and so on were more serious in this type of diversification.

CORPORATE SOCIAL RESPONSIBILITY IN THE TOP SPANISH HOTEL COMPANIES 40

Eugenia Suárez-Serrano

Corporate social responsibility (CSR) in tourism is particularly interesting given the fact that society is part of the service and companies should assume a responsibility with the places they are located in. Several studies analyse the reporting of CSR activities, however, there is modest research relating CSR practices in the hospitality industry. The purpose of this paper is to provide two case studies in the Spanish hospitality industry, Sol Meliá and NH, which are the only top hotel companies that offer information about their CSR practices in their web sites and Annual Reports. Although the tourism industry still has a long way to do in the reporting of CSR activities to become equal to other industries, in the two cases analysed a clear commitment to CSR matters it is observed within its various spheres of action.

NEW ZEALAND CEO COMPENSATION FACTORS 47

Sam Hurst, Ed Vos

This paper analyses a combination of factors to try and determine whether they explain CEO compensation, and in turn help determine what makes the board of directors more effective. Factors include busy boards, local or international board members, dependent and not independent board members, director's pay and tenure variables. Of the new and old factors considered in this approach and using a sample size of 31 NZ firms over the 2006/2007 years, a correlation existed between firm size/firm performance and CEO compensation. Further distinctions in regards to busy boards showed no significant relationship to CEO compensation, differing from previous studies, and casting doubt on whether it matters how busy the board is. Also the locality of the board was not a determining factor in CEO compensation.

**OWNERSHIP AND CONTROL IN GERMANY:
DO CROSS-SHAREHOLDINGS REFLECT BANK CONTROL ON LARGE COMPANIES? 54**

Alberto Onetti, Alessia Pisoni

This paper aims to analyse the relationships (equity and non-equity) between German banks and German firms, which are the peculiarities of the German institutional system of corporate governance. Scholars agree on the fact that cross shareholdings among banks, insurance companies and institutional firms (Charkham 1994, Baums 1993), combined with long term shareholdings (Gerschenkron 1989), and close relationships and interlocking between board members of different companies (Tilly 1969, Hopt and Prigge 1998), are the main features of bank-firms relationships in Germany. Specifically the main purpose of the paper is to demonstrate, for the panel of German companies investigated, that bank-firm relationship relies not only on patrimonial linkages but also on personal relationships.

**THE IMPACT OF PROBLEM LOAN, OWNERSHIP
STRUCTURE, AND MARKET STRUCTURE UPON THE BANK PERFORMANCE 78**

Andy Chein

Some research on the causes of bank failure finds that failing institutions had large proportions of problem loans prior to failure, and that the extra costs of administering these loans reduced the bank performance. At this moment, if bank management goes after maximizing one's utility, not the bank performance, in addition confronting from rising competitive environment, it would be quite dangerous. So, this article studies the impact of problem loan, ownership structure, and market structure upon the bank performance with the basis of cost efficiency. Empirical results show that

problem loan, ownership structure, and market structure have a significant effect upon the bank performance.

INFORMATION SHARES: EMPIRICAL EVIDENCE FROM THE FTSE CHINA A50 INDEX AND THE ISHARES FTSE A50 CHINA TRACKER 83

Yih-Wenn Laih, Chun-An Li

We study the price discovery process and common factor weights of *SS50* (the FTSE China A50 Index traded in Mainland China) and *A50* (the iShares FTSE A50 China Tracker traded in Hong Kong) using daily open-to-open price pairs and close-to-close price pairs. Due to Qualified Domestic Institutional Investor (QDII) scheme (13 April 2006) and US subprime mortgage crisis (middle 2007), our sample, which covers from November 18, 2004 to October 31, 2008, is divided into three periods. We find *A50* has a much larger common factor weight than *SS50*, and *A50* dominants for both open and close prices during all periods. The QDII enlarges the contribution of *SS50*, but financial crisis reduces it.

SECTION 2. OWNERSHIP STRUCTURE

MANAGEMENT OWNERSHIP AND FIRM PERFORMANCE: EVIDENCE FROM AN EMERGING ECONOMY 88

Talat Afza, Choudhary Slahudin

Due to the separation of ownership and control in modern corporation, the form of relationship between firm performance and insider ownership has been the subject of empirical investigation for last many decades. It is argued, that as managers' equity ownership increases, their interests coincide more closely with those of outside shareholders, and hence, the conflicts between managers and shareholders are likely to be resolved. Thus, management's equity ownership helps resolve the agency problem and improve the firm's performance (Jensen and Meckling, 1976; Agrawal and Knoeber, 1996; Chen et al., 2003). However, several studies suggest that management's ownership does not always have a positive effect on corporate performance (Demsetz and Villalonga, 2000; Cheung and Wei, 2006). Most of the empirical studies on this issue have focused on the developed economies and there is little empirical evidence on the emerging economies in general and almost no work has been done on emerging economy of Pakistan in particular. Therefore, present study is an effort to analyze the relationship between insider ownership and firm performance in emerging market of Pakistan while taking a sample of 100 firms listed on Karachi Stock Exchange.

OWNERSHIP STRUCTURE, CORPORATE PERFORMANCE AND FAILURE: EVIDENCE FROM PANEL DATA OF EMERGING MARKET THE CASE OF JORDAN 96

Rami Zeitun

This study investigates the impact of ownership structure (mix and concentrate) on a company's performance and failure in a panel estimation using 167 Jordanian companies during 1989-2006. The empirical evidence in this paper shows that ownership structure and ownership concentration play an important role in the performance and value of Jordanian firms. It shows that inefficiency is related to ownership concentration and to institutional ownership. A negative correlation between ownership concentration and firm's performance both, ROA and Tobin's Q, is found, while there is a positive impact on firm performance MBVR. The research also found that there is a significant negative relationship between government ownership and a firm's accounting performance, while the other ownership structure mixes have significant coefficients only in Tobin's Q using the matched sample. Firm's profitability ROA was negatively and significantly correlated with the fraction of institutional ownership, and positively and significantly related to the market performance measure, MBVR. The result is robust when indicators of both concentration and ownership mix are included in the regressions. The results of this study are, to some extent, inconsistent with previous findings.

**THE IMPACTS OF MANAGERIAL AND INSTITUTIONAL OWNERSHIP
ON FIRM PERFORMANCE: THE ROLE OF STOCK PRICE
INFORMATIVENESS AND CORPORATE GOVERNANCE** **115**

William Cheung, Scott Fung, Shih-Chuan Tsai

This paper provides new evidence on the relations between managerial and institutional ownerships and firm performance. These relations are found to be affected by firm's stock price informativeness and corporate governance. Based on a sample of US firms from NYSE, AMEX, and NASDAQ between 1989 and 2006, we document three important findings. First, managerial ownership and firm future performance are non-linearly related; the positive relation is stronger for firms with less informative prices or more agency problems. This finding suggests that poor governance and uninformative price increase the importance of managerial value creation for their firms by improving internal governance.

**OWNERSHIP STRUCTURE AND CORPORATE VOLUNTARY
DISCLOSURE-EVIDENCE FROM TAIWAN** **128**

Grace M. Liao, Chilin Lu

In this study, we explore the association between ownership structure and voluntary information disclosure in Taiwan. Annual report index data from Information Disclosure and Transparency Ranking System (IDTRS) are used as the proxy of the firm's voluntary information. The empirical results indicate that the level of information disclosure is likely to be less in "insider" or family-controlled companies.

SECTION 3. CORPORATE GOVERNANCE: MALAYSIA

**CORPORATE GOVERNANCE IN FAMILY RUN BUSINESS –
A MALAYSIAN CASE STUDY** **135**

C.H. Ponnu, C.K. Lee, Geron Tan, T.H. Khor, Adelyn Leong

This paper addresses the debate on family run business and corporate governance before and after the Asian Financial Crisis in 1997. As there are only few studies on the corporate governance of family businesses in Malaysia, this paper aims to provide a broad view of the corporate governance practises of family run companies in Malaysia. The majority of family-run companies in Malaysia are operated by ethnic Chinese families in Malaysia. To understand the practices of corporate governance in these companies, this study selected 3 of the top 10 family run companies by market capitalization in Malaysia.

**CORPORATE GOVERNANCE COMPLIANCE VERSUS
SYARIA' COMPLIANCE AND ITS LINK TO FIRM'S PERFORMANCE IN MALAYSIA** **148**

Noriza Mohd Saad

The purpose of this study is to investigate level of compliance by corporate governance (CG) code of best practices and sharia' principles among public listed companies in main board of Bursa Malaysia and to provide insights view in determining significance association between the corporate governance and sharia' compliance with firm's performance. Corporate governance compliance was measured by three board of directors (henceforth; BOD) facets; (i) director's remuneration, (ii) directors training and (iii) number of family members. Meanwhile, Syaria' compliance is based on six proxies, (i) riba, (ii) gambling, (iii) sale of non halal product, (iv) conventional insurance, (v) entertainment and (vi) stockbroking.

SUBSCRIPTION DETAILS **155**