CORPORATE OWNERSHIP & CONTROL

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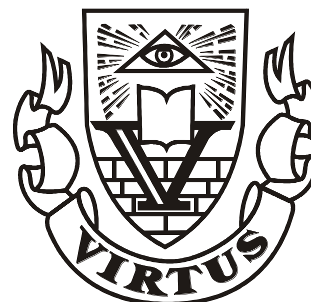

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Ai-Fen Cheng, Tao-Hsien Dolly King

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

We examine the determinants and implications of Chinese corporate cash holdings in the 1993- 2006 period. Agency theories assert that firms with a large controlling shareholder have relatively large cash holdings because of the greater ability of the controlling shareholder to extract private benefits from the cash holdings. Our findings show a very strong inverse relationship between cash holdings and firm valuation in high government ownership firms. Also, we find that in firms with high government ownership, dividend payouts are highly valued. We conclude that Chinese investors see government ownership as a factor that reduces firm value. They prefer relatively higher dividends from firms having high government ownership. Conversely, investors assign much higher value to firms with relatively low government ownership and they tend to be neutral about the dividends payouts of such firms. Also, investors value highly the presence of foreign investors in Chinese firms and tend to be neutral about dividend payouts of firms with high foreign ownership concentration.

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Bruce A. Rosser, Jean M. Canil

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SECTION 2. OWNERSHIP STRUCTURE

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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.

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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

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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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