CORPORATE OWNERSHIP & CONTROL

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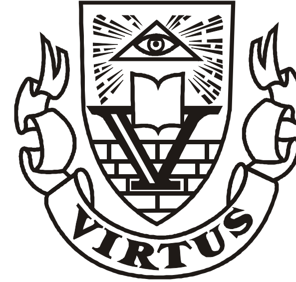

CONTENTS

Editorial 5

SECTION 1. ACADEMIC INVESTIGATIONS AND CONCEPTS

Fee Endogeneity, Discretionary Accruals and Managerial Incentives 10

J-L. W. Mitchell Van der Zahn, Greg Tower

Our study examines linkages between discretionary accruals, management ownership and remuneration and non-audit service (NAS) fees. All findings for our study are based on an extensive analysis of 351 Singapore publicly listed firms for the 2001 fiscal year period. Inferential statistics results using OLS and 2SLS reveals three key findings. First, there is a negative association between discretionary accruals and NAS fees. Second, managerial ownership positively affects the negative association between discretionary accruals and NAS fees. Third, this positive affect is weaker amongst firms with high accounting-based management remuneration. Our study also documents that when using single-equation estimates audit committee effectiveness is found to have a significant positive (negative) influence on audit coverage (purchase NAS fees). After controlling for fee endogeneity, however, the evidence shows that audit committee effectiveness is not associated with purchase of either audit or NAS fees. Findings from single-equation models of audit and NAS fees confirm prior research showing a knowledge spillover effect. Consistent with emerging literature, however, we show that when using simultaneous-equations the association between audit and NASs fees suffers from simultaneous-equation bias. Thus, consistent with Whisenant et al., (2003) we conclude there is no knowledge spillover between the two fees. Another key feature of this paper is we expand the very limited literature investigating linkages between audit committee effectiveness and the two fees. We document a failure to control for the feedback relationship between the two fee types is likely to produce spurious findings and inferences.

Corporate Governance Mechanisms and Their Impact on Firm Value 25

Del Brio, Esther B., Maia-Ramires, Elida, Perote, Javier

Previous studies have cast doubts on the effectiveness of corporate governance codes in Continental-European countries, due to their Anglo-Saxon orientation. We chose a Continental-European country with an Anglo-Saxon orientated code, such as Spain, and analyse the effects of the recommendations proposed in the Spanish Olivencia Code on the value of the firm. By using panel data estimation, we analyse the impact on firm's value of some corporate governance related variables, such as the quality of audit reports, the magnitude of directors remuneration, the reporting on director remuneration or the firm size. Results suggest a positive relationship between good corporate governance practices and the value of the company. Moreover, the more transparent the company is and the more favourable audit reports they obtain, the better the firm's value. We also conclude that it is the degree of compliance with the codes, rather than the mere reporting of whether firms comply or not with them, which increases firm's value.

Owner-Managers' Equity Portfolio Choice **37**

Martin Holmen, Jonas Råsbrant

Some studies have shown that managers concentrate large fractions of their wealth in the equity of their own firm. In this paper we use a unique dataset and investigate how Swedish owner-managers invest remaining wealth conditional on a major investment in their own firm. We find no evidence that owner-managers seek diversification benefits when they invest remaining wealth. Instead some owner-managers invest remaining wealth in the industry where they already have a substantial capital investment. We conclude that some owner-managers seek to exploit their industry-specific superior information when they invest wealth not tied up in their own firms.

A Study of Corporate Governance in Thailand Through the Lens of the Three-pillared Model **49**

Surasak Chaithanakij

Inspired by Sabel's and Schlicht's theory of the firm, a new three-pillared theory of the firm (3Cs model) has been developed. Underlying it is the concept of the balance of power. The balance of power is the core of corporate governance that appears to have been referred to more by practitioners than scholars. This paper shows that corporate governance can actually find its root in economic governance in which the balance of power has been the dominant principle underlying all stable and prosperous economic systems from the past to present. The economic history of Europe shows this. More recent studies on modern organizational economics have shown two interacting thrusts inside the firm: to achieve the firm's objective and to keep its activities efficient. Both streams of evidences lead this paper to synthesize the balance of power as the core of corporate governance. The balance of power concept, though much mentioned, never has been proposed in the past as a theoretical ground because of the firm' subtlety. This theoretical framework argues that a firm can be understood and conceptualized in several realms. Whereas the legal realm of the firms is commonly used in theoretical analysis, its narrowly characterized nexus-of-contract hinders an understanding of the complexity of the governance realm which can be construed as the balance of power driven by three interacting components, namely Authoritative capability, Control power and Cultural consensus. Since a sizable portion of Thai listed companies are plausibly controlled by majority shareholders and their families, the companies represent the ideal subjects of study through the lens of the 3Cs model. Selected proxies of the three governance components are tested against the performance indices and significant relationships are found. The 3Cs model is proved to be a new effective tool of corporate governance study.

Directorship Interlocks in Singapore: A Social Network Analysis **65**

Margaret Tan, Lee Chu Keong

This paper uses social network analysis to examine the extent of interlocking directorships across companies listed on the Singapore Stock Exchange Limited (SGX) Mainboard in 2004. Detailed analyses on different industry sectors within SGX as well as an overall analysis of all the companies on the SGX Mainboard were performed. The findings show that there were varying degrees of interlocking directorships within the different sectors, and on average, each director from a SGX Mainboard-listed company sits on more than 2 directorship positions.

Does Ownership Structure Matter? Evidence from Malaysian Equity Market **77**

Ei Yet Chu, Kooi Guan Cheah

The paper examines the determinants of ownership structure characteristics of the 147 firms listed on main board of the Kuala Lumpur Stock Exchange (KLSE). Three dimensions of governance issues in firm theory:- asymmetric information, agency conflicts and risk as discussed in Putterman (1993) are used to assess the effects of ownership concentration. Ownership concentration is divided into dispersed, dominant minority, and majority controlled firms, while ownership identities are classified as family controlled, conglomerate, others institution, state, foreign and dispersed firms in explaining the above determinants of firm's ownership. With the exception of leverage and year effects, we prove that ownership structure is able to extract cost and benefits from governance structure. We further provide evidence that ownership identities influence asymmetric information and risk.

SECTION 2. CORPORATE BOARD

Is the "Bottom Line" the Bottom Line? The determinants of CEO forced exit 91

Andrew Ward

The linkage between poor firm performance and CEO dismissal has not been consistently demonstrated in prior research, leading to calls to explore factors that moderate this relationship. In an industry-matched sample of firms from the Business Week 1000 that dismiss their CEO and those that don't, we examine the relationship between different measures of firm performance and dismissal, as well as the power of the CEO, board and shareholders to moderate this relationship. We find that CEO succession is related to stock returns, changes in profitability, and debt downgrading, but not to earnings expectations. Further, CEOs use their power to resist exit under all circumstances, while boards and institutional investors exercise their power to force out the CEO only when performance is poor.

Disclosure of Individualized Executive Compensation Figures: An Empirical Analysis of Compliance with the German Corporate Governance Code 106

Joerg Richard Werner, Jochen Zimmermann

From 2002 to 2005, the German Corporate Governance Code advised that stock listed companies should (voluntarily) disclose individualized executive compensation figures. In a sample of big publicly traded German companies, we examine which determinants drive firms to comply with that "soft law" requirement. Using a probit model, we consider 15 explanatory variables. We find that block-holdings, average executive remuneration, book-to-market ratio and the percentage of union representatives in the supervisory board significantly decrease the likelihood of disclosures on individualized executive compensation numbers. Firm size, the absolute number of supervisory board members and the presence of takeover activity turn out as having a significant positive influence on the disclosure behavior. Additionally, we find that it was less likely in 2002 that individualized remuneration figures were published, indicating that Code recommendations are considered as more binding than Code suggestions.

Does Board Characteristics Affect the Capital Structure Decisions of Ghanaian SMEs? 113

Joshua Abor and Nicholas Biekpe

The issue of corporate governance has been a growing area of management research especially among large and listed firms. However, less attention has been paid in the area with respect to Small and Medium Enterprises (SMEs). This current study explores the link between corporate board characteristics the capital structure decision of SMEs. The paper specifically assesses how the adoption of corporate governance structures among Ghanaian SMEs influences their financing decisions by examining the relationship between corporate governance characteristics and capital structure using an appropriate regression model. The results show negative association between capital structure and board size. Positive relationships between capital structure and board composition, board skills, and CEO duality are, however, found. The control variables in the model show signs which are consistent with standard capital structure theories. The results generally suggest that SMEs pursue lower debt policy with larger board size. Interestingly, SMEs with higher percentage of outside directors, highly qualified board members and one-tier board system rather employ more debt. It is clear, from the study, that corporate governance structures influence the financing decisions of Ghanaian SMEs.

Do Boards and CEOs Matter for Bank Performance? A Comparative Analysis of Banks in Ghana 119

Anthony Kyereboah-Coleman, Nicholas Biekpe

In this study, we examine whether Board characteristics have impact on bank performance by comparing listed and non-listed banks. The study uses panel data covering the eight year period, 1997– 2004 from all the 18 Banks in Ghana. Findings of the study confirm earlier studies. While the size of the board has positive correlation with bank performance whether listed or not listed, the

more independent a board is the better the performance in spite of a bank's listing status. Of significance is the finding that when a CEO doubles as a board chairman, it impact positively on performance in the overall sample, but negatively in both sub-samples.

SECTION 3. NATIONAL PRACTICES OF CORPORATE GOVERNANCE: ITALY

Fair Value and Stakeholder-oriented Accounting Systems. Some Evidence from Italy 127

Giovanni Melis, Andrea Melis, Alessandro Pili

This paper examined the key issues related to the effects of introduction of fair value in a stakeholder-oriented accounting system. In particular, it discussed how the decision of the Italian policymaker to limit the distribution to shareholders of fair value gains is rooted on the importance of prudence in the Italian legal and GAAP framework. The paper seek to explore how the importance of the 'prudence' principle in the Italian legal and GAAP framework seems mainly due to the influence of broadly defined corporate governance issues, such as the ownership, control and capital structures that characterise Italian listed companies, the concept of the corporation as generally accepted in Italy, and cultural issues, in relation to prudence, risk-taking and uncertainty avoidance. This paper argued that the Italian regulator decision seems able to safeguard the interests of a wide range of corporate stakeholders, without lowering the quality of information to investors, and provided an example of income statement section (named comprehensive income statement) in which fair value gains and losses may be disclosed.

Dependent or Independent? The Performance Contribution of Board Members in Italian Venture-Backed Firms 139

Stefano Caselli

In this paper we tested the relationship between the IRR and the corporate governance choices of 87 Italian closed-end funds for the management of 698 private equity operations carried out from 1999 to 2003. In particular, we looked for information about the role of independent directors and their ability to stimulate firm growth and the closed-end funds final return, compared with the performance of dependent directors. We found no differences in the performance of venture-backed firms due to the presence of independent members in the board of directors, and concluded that this does not influence final results.

SECTION 4. PRACTITIONER'S CORNER

Ownership, Control and Performance in the Most Actively Traded Companies on Stockholm Stock Exchange. A Comparison between 1999 and 2001 146

Per-Olof Bjuggren, Helena Bohman

The relationship between ownership, control and firm value is the subject matter studied. The study is essentially empirical. Data about the most actively traded non-financial companies on the Stockholm Stock Exchange is used. A comparison is made between the years 1999 and 2001. What do the relationships between firm value and different ownership characteristics like ownership concentration, foreign ownership and inside ownership look like? Do these characteristics differ between the booming year of 1999 and the recession year of 2001? Is there a relation between stock price and ownership structure? These are the three main questions addressed in the study.

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