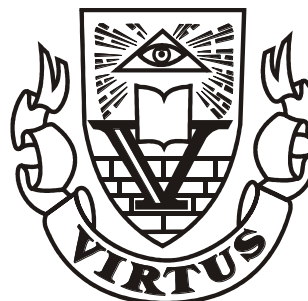


CORPORATE OWNERSHIP & CONTROL

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The Societas Europaea – A Step Towards Convergence of Corporate Governance Systems? 10

Udo C Braendle, Juergen Noll

Since October 2004 the idea of a European Company, the Societas Europaea, has become reality and companies are allowed to incorporate in this legal form. Concerning corporate governance the Statute allows the companies to choose between a two-tier organisational structure typical for Civil Law countries and a one-tier organisational structure which is predominant in Anglo-Saxon Common Law countries. By analysing the regulations of Austria and the United Kingdom for the two board systems to elaborate the respective advantages and pitfalls, we find a strong evolution of the systems towards each other.

Fall of “Organ Bank” Relationship over Bank Failure and Consolidation Wave: Experience in Pre-war Japan 19

Tetsuji Okazaki, Michiru Sawada, Ke Wang

This paper examines how the close ties between banks and non-bank firms – so called “organ bank” relationship in Japanese banking literature – declined through bank failures and banking consolidations in pre-war Japan. With a unique dataset compiled for 1,007 Japanese banks from 1926 to 1936, we measure the degree of “organ bank” relationship by the number of persons who worked as directors or auditors for a bank and a non-bank firm at the same time. We observe that this number of “director interlocking” declined along our sample period, when there were lots of bank failure, bank merger and acquisition events. Our findings suggest that banking consolidation and selection thorough failures may help to eliminate the detrimental connections between banks and non-bank firms, based on Japan’s experience.

Toward an Empirical Institutional Governance Theory: Analyses of the Decisions by the 50 us State Governments to Adopt Generally Accepted Accounting Principles 42

Vivian L. Carpenter, Rita H. Cheng, Ehsan H. Feroz

In this paper, we develop and empirically test an institutional governance theory for explaining the decisions by the population of 50 US state governments to adopt Generally Accepted Accounting Principles (GAAP) for external financial reporting. Governmental accounting studies have generally

explained the governance choice of an accounting method in terms of the economic consequences of these choices for managerial welfare and other microeconomic determinants of those decisions. Our study develops an institutional governance theory and demonstrates that institutional governance variables in conjunction with traditional economic agency variables can improve the explanatory power of government accounting choice models. Our empirical results are consistent with the stipulations of the institutional governance theory.

The Impact of Large Shareholders on Firm Risk-Taking: Evidence from a Small Market

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Michael Graham

This paper investigates the impact of active large shareholders on three measures of firm risk-taking. The results suggest a positive relationship between active large shareholding and income instability risk as well as strategy risk. Large shareholding was found not to exert any influence on risk based on stock returns.

Stock Incentive Plans in Europe: Empirical Evidence And Design Implications

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Alessandro Zattoni

Traditionally, stock incentive plans have been used by American companies for two primary purposes: as tools of corporate governance to align the interests of top managers and shareholders, and to motivate managers to maximize shareholders' value. Recently, just as the misuse of stock option plans is the subject of scathing criticism, such plans are seeing widespread dissemination in several European countries. The characteristics of the process through which they are designed and of the equity incentives implemented raise the concerns of investors and academics about the ability of such plans to align managers' interests to shareholders'. Since stock incentive plans were created and developed in the Anglo-Saxon capitalistic system, the last part of the paper reviews the reasons why firms should set up these plans. The aim is to ascertain whether European companies have good reasons to create SIPs and if the features of the incentive plans designed by these executives are consistent with achieving these goals.

The Legitimacy of Corporate Social Responsibility

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Rebecca Stratling

Based on deliberations on the legitimacy of CSR from the perspective of stakeholder and legitimacy theory on the one hand and the more critical view of Milton Friedman and Michael Jensen on the other hand, this paper analyses how major energy companies legitimise their CSR activities in their Annual Reports and their CSR reports. The research indicates that managers recognise the potential contribution of CSR to long-term financial performance of firms as well as the need to socially legitimise the firm's operations. A surprisingly limited number of the companies in the sample take a very explicit strategic approach to CSR by stressing long-term shareholder value maximisation. The CSR policies therefore appear not to focus solely on a strategic stakeholder approach geared towards maximising shareholder value but to reflect considerations raised by legitimacy theory.

The non-linear relationship between managerial ownership and firm performance

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Damiano Bonardo, Stefano Paleari, Silvio Vismara

We investigate the relationship between operating performance and ownership structure using a sample of Italian IPO-firms in the period 1995-1999. Overall, we find that their performance declines after the IPO. We find evidence of a non-linear relationship between ownership and performance using different measures of operating performance and managerial ownership. This result supports the hypothesis of a combined effect of ownership on firm performance, with a positive effect at low and high levels of managerial ownership (alignment of interest hypothesis)

SECTION 2. CORPORATE BOARD

The Long-Run Performance of Cross-Border Mergers and Acquisitions: Evidence to Support the Internalization Theory **102**

Claude Francoeur This paper was excluded

Our study contributes to improving the understanding of cross-border M&As in two domains: evaluation of the long-term financial performance of acquiring firms in cross-border M&As and detection of the determinants of their long-term success. Our results show no sustained gains or losses during the post-acquisition period for Canadian acquirers. In contrast to their performance in domestic M&As, Canadian firms carrying out crossborder M&As do generate enough value to keep up with stock-market requirements, relative to their risk level as determined by the Fama & French three-factor model and the level of returns generated by peer firms in their main industrial sector. Our findings agree with the internalization theory and suggest that acquiring firms engaged in cross-border M&As can indeed realize efficiency gains and create long -term value for their shareholders, but only under certain conditions: namely, when they possess high levels of R&D and a strong combination of R&D and intangibles.

Motives for Partial Acquisition: Evidence from the Effects of CEO Change on the Performance of Partially Acquired U.S. Target Firms **115**

Khalil Torabzadeh, Sema Dube

A company may acquire shares in another corporation to discipline the target management and improve target performance, or to gain inter-corporate perquisites such as higher dividends and favorable business deals to the detriment of the other shareholders of the target firm. We investigate the change in the post-acquisition share and operating performance, the dividend policy, the liquidity, and growth prospects of U.S. firms whose shares were partially acquired by other corporations during 1995-2000, wherein the target firms remained independent publicly traded companies following the acquisition. Using a change in CEO post acquisition as a proxy for the extent to which the acquirer wishes to change the direction of the target management, we find that target firms where the CEO was retained show negative risk adjusted abnormal share returns and significant deterioration in operating performance after the acquisition while having a substantial increase in CEO compensation compared to those target firms that replace their CEO during the post acquisition period.

Corporate Mergers and the Impact of Pre-merger Variance, Leverage and Maturity of Bonds on Wealth Transfers **125**

R. S. Rathinasamy, Ronald E. Shrieves, C. R. Krishnaswamy

This paper addresses several hypotheses concerning wealth transfers among bondholders and stockholders in two firms which merge. In so doing, several refinements relative to the previous research in this area are introduced. We find evidence which supports the presence of diversification effects (coinsurance) to some bondholders, incentive effects (risk increases) to other bondholders, and wealth transfers between stockholders and bondholders. This study examines the impact of 49 industrial mergers between 1970 through 1984 on the returns to bondholders and stockholders of the merging firms. Results indicate that bondholders of the acquired firm group gain significantly in the announcement month, suggesting a diversification effect for acquired firm bondholders. Acquiring firm bondholders suffer significant losses in the pre-announcement month supporting the incentive effects hypothesis for the acquiring firm bondholders.

The Effect of Takeover Defenses on Long Term and Short Term Analysts' Earnings Forecasts: The Case of Poison Pills 140

Thomas A. Turk, Jeremy Goh, Candace E. Ybarra

This study examined the effect of poison pill adoption on long term and short earnings forecasts by security analysts. Our results provide no evidence of significant revisions in one-year or five-year earnings forecasts following the adoption of poison pills. We do find evidence, however, that firms adopt poison pills following a period of significant negative revisions in earnings forecasts. Our results suggest that poison pill adoptions may be a response to downward revisions in earnings forecasts.

SECTION 3. NATIONAL PRACTICES OF CORPORATE GOVERNANCE: CANADA

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Yoser Gadhoun, Michel Y. Bergeron, Jean-Pierre Gueyjié

The purpose of this paper is to examine the relationship between dividend payments, firms' decisions control and the nature of family firms, in order to assess whether large shareholders expropriate wealth from minority shareholders in Canada. Using data collected from various sources, we formulated and tested three hypotheses related to this issue using OLS and logit regression models. Our results indicate that in Canadian firms, dividends are used as a protective mechanism for minority shareholders against the possibility of expropriation by large shareholders. The protective power of dividend, however, seems less effective in Canadian family firms. The hidden reason is the control that families exert on the dividend payout policy.

Directors' and Officers' Insurance in Canada 154

M. Martin Boyer

This paper looks at the insurance demand of a firm's directors and officers using a sample of Canadian corporations (excluding firms from the financial services and mining sectors) from 1993-1999. More to the point, we study the demand for directors' and officers' insurance. Contrary to the financial distress theory of hedging, our results suggest that larger corporations are more likely to purchase D&O insurance. On the other hand, insurance is more likely when the firm is financially weak. Firms are also more likely to purchase D&O insurance when there are few outsiders on the board of directors and when the board members have an important financial stake in the corporation, suggesting that D&O insurance is yet another tool for managerial entrenchment.

SECTION 4. PRACTITIONER'S CORNER

Corporate Governance in Brazil: A study on 647 open corporations 160

Douglas C. Monaco

This article draws on a sample of 647 Brazilian publicly traded corporations to explore some of the features of corporate governance in this country. The results that due to the size of the sample (80% of total population) are particularly reliable, show that ownership concentration is by far the mostly used governance mechanism what matches the patterns observed in Continental European countries. Results also raise doubts about the real role boards of directors play in Brazilian open corporations, what offers new streams for researchers willing to tackle issues in emerging economies.

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