CORPORATE OWNERSHIP & CONTROL

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SECTION 2. BOARD PRACTICES

This study documents an overall increase in board independence and size following completed mergers. The increase in board size is positively related to the size of the target firm, suggesting either that large targets have bargaining power to negotiate inclusion of their directors on the board of the merged firm, or that high target director representation is perceived to be vital in mergers of equals. The change in board independence is positively related to post-merger cash flow difficulty, suggesting that independent directors are more likely to be added if the firm faces financial constraints.

This paper compares the number of audit committee (AC) members, meeting frequency and the presence of internal auditors at AC meetings of listed companies according to their country of domicile. We consider the USA, the UK, the Netherlands, France and Belgium. Hypotheses are developed based on differences in corporate governance codes. Data are gathered from annual reports of 100 listed companies in these countries. Our results indicate fewer AC members in the Netherlands, and a higher frequency of AC meetings in the UK and Belgium, countries where corporate governance codes do not proscribe a minimum number of meetings. The presence of an internal auditor at AC meetings was, on average, highest for firms listed in the USA.

A rarely studied trend in corporate governance is the increasing tendency to fill CEO openings through external hires rather than through internal promotions: Kevin J. Murphy and Ján Zábojník (2004) show that the proportion of outside hires has doubled and their pay premium almost quadrupled over the last thirty years. Assuming that general managerial skills are becoming more important relative to firm-specific skills, the authors conclude that competition in the managerial labor market establishes optimal contracts. In our model and our empirical analysis we question this explanation by assuming that over the past decades the dishonesty of the predecessor has become relatively more important for the appointment decisions of firms. We conclude that outside hires are a suboptimal trend because external candidates even step up the regression of integrity in firms: As nobody has an incentive to invest in firm-specific knowledge, not only the performance of firms drops, but also the remaining integrity.

We examine the value of outsiders by voting behavior of boards. Our model proves that boards with a majority of trustworthy but uninformed outsiders can implement institutionally preferred policies and augment corporate performance by upgrading resource allocation. Our laboratory experiments strongly support this conclusion that higher proportion of appointed outsiders yields more efficient boards. We also find outsider-dominated boards, given enough time, will reduce information asymmetry among directors and thereby execute institutionally preferred policies.

SECTION 3. NATIONAL CORPORATE GOVERNANCE: MALAYSIA

SECTION 4. PRACTITIONER'S CORNER