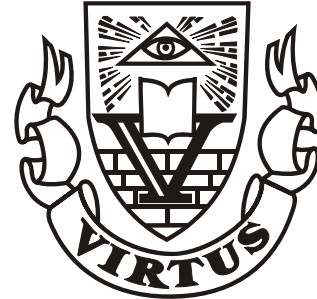


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# CORPORATE OWNERSHIP & CONTROL

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**On the way to “good” corporate governance? A critical review of the German debate** 9

*Thomas Steger, Ronald Hartz*

Corporate governance was widely debated in recent years, in Germany as elsewhere. The question what “good” corporate governance constitutes and how it should be achieved stands in the centre of all those discussions. This paper critically draws on the German case. It tries to identify the key issues as well as recent changes in the character of this debate. It is argued that the reform spirit in Germany stands at the edge and needs some considerable refreshment in the near future.

**Earnings management and internal mechanisms of corporate governance: empirical evidence from Chilean firms** 17

*Félix J. López Iturriaga, Paolo Saona Hoffmann*

We analyze the ability of the capital structure and the ownership structure as mechanisms of control of the managers of the firms and to reduce their accounting discretionary power for a sample of Chilean firms. Using earnings management and abnormal accruals as indicators of discretionary behavior, our results show that both debt and ownership concentration reduce the managers’ discretionary behavior, so we corroborate the outstanding role both mechanisms play in a country with low protection of investors’ rights. At the same time, we find that earnings management is fostered by institutional investor ownership.

**Accounting reform in Ukraine** 30

*Robert W. McGee, Galina G. Preobragenskaya*

Topics discussed include the adoption and implementation of International Financial Reporting Standards (IFRS), education for accounting practitioners, recent changes in accounting education in Ukrainian universities, accounting certification and taxation. Expertise in IFRS is in short supply in Ukraine. However, demand for knowledge of IFRS is also lacking, which provides little incentive for local Ukrainian accounting firms to develop expertise in this area. As a result, the top international accounting firms, mostly the Big-4, have captured most of the market for this expertise. Nearly all of the largest companies in Ukraine retain the services of one of the Big-4 and it is primarily the large

companies that can see any use for IFRS, since it is mostly the largest enterprises that are going to the international capital market in search of capital. International investors demand to see financial statements that are prepared using either IFRS or U.S. GAAP as a condition of providing investment capital and the Big-4 accounting firms are best prepared to provide guidance and expertise in this area. Much of the IFRS training of practicing accountants is done by the Big-4 accounting firms. They have developed extensive course materials over the years and have a competitive advantage in this area. However, the training they provide is mostly limited to their employees and their clients, which means that accountants who do not work for either a Big-4 firm or one of their clients do not have ready access to IFRS training. Ukrainian universities have started to incorporate IFRS into their accounting curriculums. The problem is that they cannot always find good learning materials. Some of the most prestigious universities in Ukraine still do not have a course devoted just to IFRS. IFRS is inserted into their course on foreign accounting. Ukrainian financial statements that are certified by accountants who possess only a Ukrainian certification do not have much credibility in international capital markets. One reason for this lack of credibility is the perception that the average Ukrainian accountant does not meet international standards when it comes to knowledge of IFRS and International Standards on Auditing (ISA). Another reason is because the accounting certification system is viewed as corrupt. There are rumors that Ukrainian accounting certification can be bought.

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*Masrur Reaz, Thankom Arun*

This study attempts to explore the theoretical and empirical evidences on the relationship between competition and corporate governance in the broader back ground of economic reforms in developing economies, and analyses the problems that may occur due to inadequate corporate governance practices in an enhanced era of competition. The paper also discusses the areas of corporate governance that required immediate attention in developing countries such as protecting shareholder rights and market for corporate control, which are emerging issues in the context of rapid privatisation and deregulations.

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*Tarek Ibrahim Eldomiaty*

This study examines the relationship between debt governance structure at three levels (high, medium and low) and firm's performance in the stock market. The debt structure classifies debt into short-term debt and long-term debt at each debt level. The results indicate that in the high debt firms, the short-term debt helps improve the PE ratio. As for the medium debt firms, the results show also that the short-term debt helps improve the market value added. The results of the low debt firms are similar to those of the high debt firms indicating that the short-term debt can be used to improve the PE ratio. The regression characteristics show that with the exception of medium debt in the PE equation, the explanatory power for the other performance measures are relatively high which indicates a relatively high degree of association between both types of debt with the MB and MVA respectively. The overall results show that (1) debt governance structure in Egypt is characterized by the dominance of short-term debt, (2) the latter can be used to improve the firm's performance in the stock market, which shows that the association of interests between short-term debtholders and stockholders is highly likely, and (3) the negative relationships of long-term debt indicate to the presence of an agency problems between long-term debtholders and stockholders. The contribution of this paper is that it shows the extent to which either type of debt can be used to address the debtholder-stockholders agency relationships.

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**Government and market: a critique of professor James Buchanan's "what should economists do?"** **81**

*Walter Block*

For Professor James Buchanan, government is just one more player in the market, along with all others, such as consumers, landlords, farmers, etc. This view is subjected to sharp criticism by the present author, who makes the case that the government differs from all other participants in society

in that it and it alone enjoys a legal monopoly over initiatory aggression against person and property. No individual presumes to take on the role accorded the state (e.g., to “tax” anyone, or prevent businesses from merging under threat of fine or jail); the government does this every day.

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*M<sup>a</sup> Dolores Álvarez Pérez, Edelmira Neira Fontela*

Stock options plans (SOPs) can be used as a CEO remuneration instrument. Our study examines the dimensions of SOPs, the types of SOP used by Spanish firms to reward the CEO, and the effect of different SOP types on CEOs’ behavior. The results show that traditional options “at the money” are the most used by Spanish firms. Although this SOP type is not the most appropriate from the optimum contract theory approach, it offers high potential gains to the CEO. It may therefore increase the capacity of companies to attract and retain competent executives.

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*Costas Constantinou, Lenos Trigeorgis, and Nikos Vafeas*

We examine the link between board structure and bid-induced abnormal returns for a sample of 198 UK-based firms that became takeover targets between 1989 and 1998. As expected, takeover targets experience significant gains during the takeover announcement period. In line with a disciplinary explanation for takeovers, we find that target boards that are larger, with fewer independent directors, and a managing director chairman, experience more favorable announcement-period returns. Targets with more reputable directors and directors with greater ownership incentives, also experience more favorable announcement-period returns.

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