

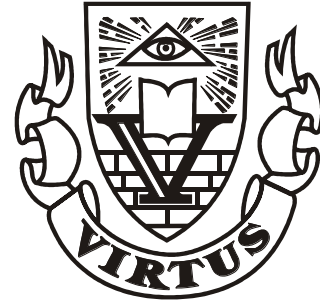
# CORPORATE OWNERSHIP & CONTROL

---

## VOLUME 8, ISSUE 3, SPRING 2011

---

### CONTENTS



#### EDITORIAL

4

---

### SECTION 1. ACADEMIC INVESTIGATIONS AND CONCEPTS

#### CORPORATE GOVERNANCE AND THE DIVERGENCE OF LEARNING CHANNELS

9

*William Cheung, Adrian Lei, Libin Tao*

We study the relation between corporate governance, market liquidity and stock price informativeness. Firms with more informative stock prices are associated with larger transaction volume, larger bid-ask spread and better corporate governance. This liquidity-informativeness relation is significant for firms with high antitakeover provision (bad corporate governance). However, bid-ask spread is insignificantly associated with price informativeness for firms with less antitakeover provision (good corporate governance). This supports that firm-specific return variation better measures stock price informativeness when firm has strong corporate governance framework. Our results suggest that (i) more (less) informed trading activities associated with weak (strong) corporate governance, and (ii) corporate governance explains the cross-sectional variation in information efficiency of stock prices. Our results are consistent with theories in financial market learning that investor learn from informed trading activities associated with weak governance firms and informative disclosure from strong governance firms.

---

#### THE MULTI THEORETICAL APPROACH TO GOVERNANCE: AUTHENTICATING THE CONCEPT AND ESTABLISHING ITS CONTROL FRAMEWORK

18

*Joe Christopher*

The purpose of this paper is to authenticate the multi-theoretical approach to governance and establish its control paradigm. Through a theory building approach an analysis of existing concepts and definitions of governance is undertaken to authenticate the multi-theoretical approach to governance. Thereafter, common themes that form the basis for recognizing the governance levels of a multi-theoretical governance paradigm are identified from the analysis to establish a control framework. This paper argues that the proposed broad four level control framework applicable under a multi-theoretical governance paradigm can be practically applied by organizations and will contribute towards narrowing the theoretical practical gap in governance. It contributes to the governance literature and encourages future research to explore the utility of the framework.

**THE IMPACT OF CORPORATE GOVERNANCE ON  
TURKISH BANKING SECTOR DURING ECONOMIC CRISIS:  
THE TEST OF INSTRUMENTAL STAKEHOLDER THEORY**

**28**

***Suleyman Gokhan Gunay, Mustafa Heves***

The aim of this paper is to show the relationship between corporate governance and bank financial performance during economic crisis. In other words, a stakeholder governance model is developed in order to test the instrumental stakeholder theory during economic crisis. It is found that the average return on equity for the group of banks that use stakeholder governance model is approximately 70% higher than the group of banks that use stockholder governance model in Turkey during the economic crisis period (2007-2009). These findings show the importance of stakeholder governance model during the economic crisis. In other words, it is found that banks immunized themselves against the effects of economic crisis in terms of their financial performance.

---

**DUAL ROLE ADVISORS AND CONFLICTS OF INTEREST**

**42**

***Linus Siming***

A dual role advisor is an investment bank that is advising the vendor client in an M&A transaction while simultaneously financing the bidder. I investigate whether dual role advising is good or bad for target shareholders through a comprehensive analysis of U.S. public M&A over the 15-year period from 1993 to 2008. Conflicts of interest are manifested through that deals which involve a dual role advisor are, compared to deals with no dual role advisors; (a) performed at lower premium, (b) more likely to be subject to a lawsuit, (c) feature lower merger advisor fees and (d) commensurate with higher announcement returns for bidders. Target firms with sound corporate governance practices are less likely to encounter dual role situations.

---

**CORPORATE GOVERNANCE AND STOCK PERFORMANCE:  
EVIDENCE FROM CANADIAN FIRMS  
OVER THE PERIOD 2005 – 2009**

**56**

***Richard Cotter, Jeremy Dason, Jijun Niu, Peter Klein***

This paper examines the relationship between corporate governance and stock performance using a sample of Canadian firms over the period 2005 – 2009. We measure corporate governance using the Corporate Governance Quotient index, and stock performance using three variables: one-month stock return, three-year stock return, and Tobin's Q. Overall, we find no evidence that corporate governance is associated with stock performance over our sample period.

---

**SECTION 2. CORPORATE BOARD PRACTICES**

**CLASSIFIED BOARDS AND FIRM VALUE REVISITED**

**69**

***Miroslava Stráska, Gregory Waller***

We reexamine the negative relation between firm value and board classification. We document that firms with characteristics indicating low power to bargain for favorable terms in a takeover, but also indicating high potential agency costs, are more likely to have a classified board in place. We also find that among these firms, those with classified boards have higher valuation, as measured by Tobin's Q. This result is robust to various controls for endogeneity. Our evidence suggests that adopting a classified board is beneficial for certain firms and challenges the commonplace view that board classification is an antitakeover device that necessarily harms shareholders.

**EVALUATING THE PERFORMANCE OF BOARD MEMBERS:  
A PORTRAIT OF CANADIAN FIRMS**

**86**

***Sylvie Berthelot, Jackie Di Vito, Vincent Gagné***

The object of this study is to examine how board members' performance is evaluated and how they are compensated. In the last decade, the board of directors of publicly traded firms has been under strict surveillance by market participants and regulatory bodies. However, although market regulators require the full disclosure of executive and directors' compensation plans, very few guidelines exist as to how directors should be evaluated. Hence, by thoroughly examining the information disclosed in management proxies, this study shows that publicly traded Canadian firms do indeed evaluate board members' performance. However, the information disclosed regarding the evaluation of board members is parsimonious and mostly generic. Based on a sample of 173 Canadian firms, our findings also indicate that equity based incentive plans through differed share units (DSUs) are most often used as means to compensate directors.

---

**COMPLIANCE AND TRANSPARENCY  
OF GERMAN SUPERVISORY BOARD COMPENSATION**

**94**

***Rosemarie Koch***

Due to some new developments in the German Corporate Governance Codex (GCGC) as well as the introduction of new laws several aspects of the supervisory board compensation are subject to change. In a first step we analyze the size and structure of DAX 30 companies' supervisory board compensation. One novelty of the article is that we perform this analysis on a person specific level instead of relying on firm level data. In a second step, we examine how well DAX 30 firms comply with the GCGC on supervisory board compensation both with regard to the recommended structure and with regard to the recommended detail in disclosure. We construct a compliance scoring model and find that overall a score of 70 % compliance has been reached.

---

**SECTION 3. CORPORATE GOVERNANCE IN ASIA**

**GOVERNANCE OF LARGE FAMILY COMPANIES  
IN TRADITIONAL AND NEW ECONOMY INDUSTRIES IN INDIA:  
EFFECTS ON FINANCIAL PERFORMANCE**

**108**

***Rakesh Pandey, Dennis Taylor, Mahesh Joshi***

This study adds a new context to the body of empirical literature on relationships between corporate family ownership, governance and financial performance. The context is large family listed companies in India operating in traditional industries under succeeding generations of family management compared to companies operation in India's 'new economy' industries under first generation family entrepreneurs. Results reveal a negative relationship between family CEO and firm performance, and a positive relationship between family ownership and firm performance, which supports prior findings in other contexts. However, in this study of Indian family companies, the former relationship is found in 'new economy' industries only, whereas the latter relationship is found in traditional industries only. Additionally, in India, Boards that are more actively involved in management processes will record superior financial performance in companies in traditional industries, but Boards less actively involved achieve better financial performance in new economy industries. These results are interpreted in light of historical Indian family business practices and modern changes. Implications for the future of the traditional family business model, as India rapidly progresses towards 'new economy' industries, are drawn from the results.

**THE ROLE OF AUDITORS IN DETECTING CREATIVE ACCOUNTING:  
SINGAPOREAN AND AUSTRALIAN EVIDENCE**

**124**

***Rusmin Rusmin***

This study examines the association between the magnitude of earnings management and two characteristics of auditor value - auditor independence and auditor quality. As earnings management, auditor independence and auditor quality are unobservable the study uses absolute discretionary accruals, the ratio of non-audit to total fees and auditor industry specialisation as respective proxies. This study finds no empirical evidence that non-audit services are associated with firms' discretionary accruals. This result suggests that the provision of non-audit services by the incumbent auditor does not compromise independence. This study presents evidence of a negative association between auditor specialisation and the earnings management indicator. This finding infers that the magnitude of earnings management amongst firms engaging the services of a specialist is significantly lower than firms purchasing audit services from a non-specialist auditor.

---

**INDEPENDENT DIRECTORS AND CORPORATE PERFORMANCE:  
EVIDENCE FROM LISTED FIRMS IN CHINA**

**145**

***Harjeet S. Bhabra, Tiemei Li***

In 2001, the Chinese Securities Regulatory Commission (CSRC) issued Regulation No.102 stipulating a minimum number of independent directors on corporate boards. We investigate whether the regulation had its intended effect of protecting minority shareholders and enhancing firm performance. Using a large sample of 2646 firm-year observations from 2001 to 2003, we find that both state-owned and non-state-owned firms improved their board independence significantly from the pre to the post regulation period, and firm performance significantly increased in the post regulation period for both types of firms, with the increase being greater in the case of SOE firms.

---

**SUBSCRIPTION DETAILS**

**170**