CORPORATE OWNERSHIP & CONTROL

VOLUME 9, ISSUE 2, WINTER 2012

CONTENTS

Prior research has linked audit quality with large audit firms. Consequently, a dichotomous variable, Big N/non-Big N has traditionally proxied for audit quality. Applying a different measure of audit quality than audit fee, this study investigates whether a single dummy variable for Big N is an appropriate proxy for audit quality in explaining differences in the existence of clients' internal audit (IA) function. Results indicate that the existence of clients' IA function is not consistent among Big 4 firms. This has important research implications for the universal use of a Big N dummy variable as a measure for audit quality.

This research examines the impact of firm's listing status on the relationship between corporate governance and cost of bank loans. The analysis yields four major findings after controlling for firm characteristics and prime interest rate. First, the financing cost of debt is higher for private firms. This result confirms that information risk is higher for private firms. Second, family firms enjoy lower cost of debt. The result found is consistent with the literature that family firms are related to a lower cost of debt financing. Third, that family firms having lower cost of debt is only found in listed firms. This evidence supports the prediction based on the lack of market perspective which suggests that the family effect requires a capital market to make it substantiate. Finally, strong corporate governance helps reduce financing cost of debt. However, these governance effects are not affected by the listing status. In other words, commercial lenders in this study price indifferently for good governance mechanisms regardless of public or private firms.

The study seeks to understand how the firm's ownership structure and the board of directors' composition influence the structural capital. The latter is apprehended by two main levers: innovation ("R&D") and firm's reputation. By mobilizing several panel linear regressions on 274 American firms, the results show that the firms which heavily invest in structural capital are more successful and chaired by the younger and heterogeneous TMT. No disciplinary effect of the board on structural capital has been found. The results support the cognitive theory assumptions. The classic perspective failed to explain the structural capital phenomena. In order to enhance their structural capital, firms must pay a close attention to their board cognitive contribution and not to its disciplinary role.

We do not find any consistent evidence that the presence of the largest Brazilian pension funds as relevant shareholders is associated to higher corporate governance scores by public Brazilian companies. Even though companies with institutional investors as relevant shareholders presented a higher average corporate governance score than other companies, they were also larger and had greater past profitability than other companies, which are common attributes of firms with better corporate governance according to the literature. The impact of Brazilian institutional investors on the corporate governance quality of their investees is either negligible or cannot be captured by the proxies we employed. Finally, we note that these two pension funds may represent the policy and political views of the incumbent Brazilian government and that the actions of their board appointees may or not reflect what is understood as good corporate governance practices.

SECTION 2. CORPORATE CONTROL

This paper investigates the relationship between control rights, cash flow rights, and firm performance across a sample of 276 China's private listed companies (CPC) from 2003 to 2008. This paper finds that the performance of firms with pyramid ownership structures (POS) is lower than that of firms with direct controlling ownership structures (DOS). The separation of control rights and cash flow rights, which is the main characteristic of POS, is negatively related to the firm performance. Furthermore, in order to reduce the negative influence of control rights, this paper proposes the following countermeasures: cash flow rights should be increased because it has a positive effect on the firm performance; the supervisory powers of shareholders meeting (SM) should be strengthened because it helps improve firm performance and overrule invalid decisions taken by independent directors in China. This is proved by the findings that show a positive correlation between the attendance rate at shareholders' meetings and firm performance; moreover, there is no positive relationship between independent directors and firm performance.

The main purpose of this study is to ascertain whether alternative corporate ownership and control structures give rise to significant differential firm performance in light of Nigeria's conflicting polices regarding the ownership structure of the state owned enterprises. The data obtained from a sample of 73 companies listed on the Nigerian Stock Exchange is analyzed through the Wilcoxon ranks tests for two independent samples. The evidence obtained suggests that firms with foreign ownership and control outperform their indigenous counterparts. However, firms controlled by single shareholders do not perform better than those controlled by multiple shareholders. The study recommends that foreign ownership and control of Nigerian firms be encouraged due to their affirmative features, while single shareholder control of firms, embedded in the core investor mode of ownership, be reconsidered.

SECTION 3. CORPORATE GOVERNANCE IN AUSTRALIA

The objective of this research is to relate company performance (in terms of different measures) to corporate governance characteristics (like board size, internal or external majority governance) for the publicly listed information technology (IT) companies in Australia. A sample of 55 such companies are considered. Results reveal that, contrary to the popular belief in respect to positive influence of external board members, performance of the IT companies tend to worse with higher degree of board independence. We attribute the characteristics of these outcomes to the dynamic properties of the IT industrial sector in Australia. Linear regression models relating the performance measures to board characteristics along with other financial information have also been developed. The number of senior management members has been identified as the key board characteristic factor in these models, implying the importance of major internal control over highly independent board for the publicly listed Australian IT companies.

This study considers the association between corporate governance attributes and IPO return behaviour in the Australian share market. Strong, significant associations are reported between IPO initial returns and board size, board independence and leadership structure. The board size effect appears contextual and increases with larger entity size. Audit committee formation per se was not a discriminating factor but committee conformity with exchange guidelines was of marginal significance. Overall, the results are consistent with the premise that governance attributes can offer signals to investors concerning the likely effectiveness of management actions in serving shareholder interests and enhancing firm prospects.

This paper introduces an SME development model, based on a case study of the Malaysian SME enabling environment. It proposes a structure of institutions that specifically addresses the different challenges faced by SMEs (including a lack of technological know-how, market and trade intelligence, advice on quality and capacity enhancements and financing), encased within supporting regulatory policies and synergistically linked with small scale accounting and consulting firms. It proposes establishing small business development units (SBDUs), within comprehensive universities, to strategically harness and deploy the universities' internal brainpower for boosting nationwide SME development. It also suggests harnessing the power of the free market by promoting small scale accounting and consulting firms, that will serve as information intermediaries between SMEs, SBDUs and various institutions set in place to help SME development. A national human resource accounting policy is proposed to help in the governance of the SME sector. This policy would help to measure, manage and promote human capital development at the level of firms, economic sub sectors and the nation. Various incentives, such as tax exemptions and national level recognition and awards for successful consultants, will further promote SME development. These measures can also be promoted at regional levels, such as the ASEAN and APEC. Given that SMEs are major sources of employment, these measures that help to create robust SMEs that would support sustained long-term economic growth, which would in turn help sustain low unemployment rates and combat poverty.