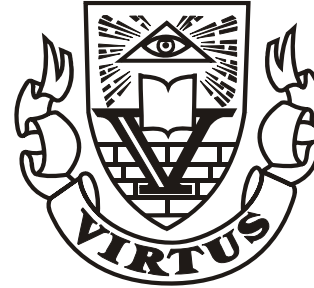

CORPORATE OWNERSHIP & CONTROL

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Ralf Bebenroth

This study presents an empirical analysis of compliance. In the year 2002 the German Corporate Governance Commission introduced a Corporate Governance Code to companies listed on the German stock exchange. Each company in noncompliance with one or more of the recommendations must explain in writing. Regarding the 2003 amended Code, this study identifies the Most Commonly Unaccepted Recommendations (MCURs). Finally it gives some explanation why some companies have good reason not to follow all the recommendations like the German Corporate Governance Commission want them to.

On The Estimation of The Value of Voting Rights: Evidence From Taiwan 15

I-Hsiang Huang

This paper proposes that the value of voting rights can be measured as the abnormal return of the date after the ex-voting rights date. The merit of this method is that it is applicable to all publicly traded firms. Whatever the expected return model is adopted, the vote value hypothesis of Manne (1962) is hold by using a sample of firms listed on Taiwan Stock Market whose annual shareholder meetings have a board election. Moreover, the result shows that the value of voting rights is negatively related to prior year's market value of equity, managerial equity ownership, and return on asset. It is consistent with the hypothesis that the source of vote value comes from private benefit of control and improved management.

Horizontal and Vertical Takeover and Sell-Off Announcements: Abnormal Returns Differ By Industry 23

Stephan K.H. Gross, Hagen Lindstädt

We begin with the hypothesis that shareholder-wealth effects of corporate transactions differ depending on (a) the specific industry, (b) whether they are horizontal or vertical, and (c) whether they are integrations (takeovers) or disintegrations (partial sell-offs). A standard event study analysis for cumulative abnormal returns based on the market model is conducted for 309 data-points from

227 transaction announcements. We find that abnormal returns indeed do significantly depend on the transaction profile (horizontal vs. vertical and integration vs. disintegration) and industry. One main result is the observation that the capital market shows distinctive preferences for either an integration or disintegration strategy for vertical as well as for horizontal transactions. The specific pattern of this preference differs according to industry.

Cutting The Dividends Tax...and Corporate Governance Too? 31

Dino Falaschetti, Michael J. Orlando

Economists tend to agree that the recent cutting of US dividends taxes will encourage investment and reduce financial distress. In addition to creating these “benefits,” however, the tax cut can also increase governance costs. For example, by removing a bias for leveraged capital structures, the tax cut foregoes debt’s superiority on at least three dimensions: Evaluating and monitoring demanders of financial capital; Constraining managerial agents’ from opportunistically employing capital market proceeds; and Encouraging non-financial stakeholders (e.g., employees, suppliers) to make firm-specific investments.

Political Costs And Lobbying Activity Of Australian Gold Mining Firms 35

Reza M. Monem

This paper provides empirical evidence on the lobbying behaviour induced by political costs in the Australian gold mining industry. The Australian gold mining industry remained tax-exempt for nearly seven decades until 1 January 1991. Due to its rapid prosperity in the early 1980s, the industry came under intense political scrutiny in the mid- to late-1980s. In particular, in December 1985 a federal tax inquiry was commissioned which investigated the economic and social impact of removing the tax-exempt status of the industry. Using the voluntary submissions to the federal tax inquiry as a measure of lobbying activity, this study documents that gold mining firms’ lobbying positions were positively related to the quantity of recoverable gold reserves held by them and profitability of their operations. Results of this paper confirm findings in prior research that firm lobbying positions are consistent with the adverse economic consequences of regulatory changes.

The Semantics of Governance: The Common Thread Running Through Corporate, Public, and Global Governance 45

Rodolfo Aprea

This paper argues that the semantics of governance illustrates connections and provides a unifying view from which to understand much better its natural branches: corporate, public and global governance. In this regard, governance is presented from the point of view of a distinctive field of learning and practice. Three levels of analysis are carried out to drive the subject home. The first one highlights the scope of corporate governance within an institutional framework. The second frames the notion of public governance, giving heed not only to the linkage among constituents, charters, representation and the fiduciary role, but also problems raised by accountability, voting rights, and the codes of good practices. The third level leads to the semantics of global governance.

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Bruce A. Rosser, Jean M. Canil

This study examines interactions between pre-award ESOP restrictive conditions and award discounts/premiums that characterized executive stock option awards in Australia from the mid-1980s to 2000. Shareholder wealth effects at award suggest that (i) shareholders generally do not gain from offering discounts because associated value increments do not exceed the cost of the discount, (ii) premium awards coupled with exercise restrictions appear to be used to ameliorate the risk of CEO opportunism associated with irregular awards, and (iii) shareholders suffer a wealth decrement when premium awards are used to ameliorate the disinvestment incentive of inferior CEO dilution protection. The second of these findings implies risk of CEO opportunism. A major implication is that award discounts/premiums are used to modify the conditions of pre-existing ESOPs that presumably are dated and no longer optimal for addressing current incentive problems. Analyses of the optimality of award discounts/premiums should take this into account.

A Review Of IPO Selling Methods: Is There A Clear Winner?

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Kuntara Pukthuanthong, Thomas J. Walker

After the hot IPO market of 1999/2000, numerous U.S. underwriters have been sued in connection with unfair IPO allocation schemes. In these lawsuits, plaintiffs contend that the underwriters engaged in illegal tactics by soliciting and receiving kickbacks in exchange for allocations of portions of a company's IPO, required tie-in purchases creating an artificial demand for the stock, and artificially inflated the price of the stock through "laddering" (requiring purchases of additional stock in the aftermarket at escalating prices). The proliferation of these laddering schemes has inspired several government agencies and regulatory bodies to seek alternatives for a fairer way to sell IPO shares to the public. Our study discusses the advantages and disadvantages of the existing selling methods. While there is no clear-cut answer as to what constitutes the best selling method, our study should provide corporate managers with the necessary insights that are needed to choose the method that best meets their objectives.

SECTION 2. CORPORATE OWNERSHIP

Does Ownership Structure Sffect Firm Performance? Evidence From a Continental-Type Governance System

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Carlos Fernández, Silvia Gómez-Ansón

This paper analyzes the influence of stock ownership structure on firm performance in Spain, a country characterised by the dominance of internal mechanisms of control and a weak external control performed by the markets. Once the possible endogeneity of managerial stock ownership is taken into account, we find no evidence of its influence on firm's performance. This result is consistent with previous evidence for Anglo-Saxon economies. Consistently with the supervisory role of the large shareholders we find also evidence of a positive effect of stock ownership concentration on firm performance. Nevertheless, we have to be cautious relating this result as its significance depends on the firm's size.

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Fernando Lefort

In this paper I provide a summary description of corporate structure in Chilean firms and explain the evolution of conglomerates and capital markets in the Chilean economy. Specifically, I look at the control mechanisms and the identity of controllers of listed non-financial companies in Chile. Using a database developed by Lefort and Walker (2000, 2003b), I look at the relationship between family ownership and control and market valuation of listed firms in Chile. The evidence provided in this paper indicates, that in the case of the highly concentrated Chilean companies, family management of a company is associated to a market discount. This evidence is consistent with the hypothesis of imperfect correlation of talent across generations.

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Sunder Venkatesh, Suman Neupane

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Moral Hazard, Agency Problem and Ownership Structure

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Seok Weon Lee

Using a sample of recent Korean banking industry for 1994-2000, we examine how the effectiveness of managerial ownership is affected by the regulatory regimes in banking industry and the banks'

moral hazard incentives. We found that the managers of the banks in the higher moral-hazard group (the group of banks that are known to have greater moral hazard incentives in the literature such as the banks with lower charter value, greater asset size and lower equity capital) tend to have greater incentives to align their interests to those of stockholders by taking on more risk as managerial ownership rises, compared to the banks in the lower moral-hazard group, but only over the relatively deregulated period 1994-1997. Thus, in terms of only addressing the owner/manager agency problem, the owner/manager agency problem of banks can be easily addressed by changing their insider holdings or ownership structure, in particular when the banks have relatively higher moral-hazard incentives and banking regulations are loose.

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Andre Carvalho da Silva, Flavia Mourao Graminho

This paper investigates on a firm-level basis the relation between corporate governance practices and campaign finance in Brazil. We interpret campaign finance as a proxy for political influence by interest groups. Our results indicate that family-owned firms contribute significantly more for political campaigns, both in terms of proportion of firms and total amount spent to finance the candidates. Higher concentration of capital, and the separation of ownership and control are positively related to campaign donations, while better corporate governance is negatively related to political contributions.

Controlling Shareholders and Corporate Valuation in Brazil 137

Ricardo P. C. Leal, Andre Carvalho da Silva

This paper investigates the relation between the ownership structure, valuation and performance of Brazilian companies. The results show that large shareholders keep control while holding only a small fraction of cash flow rights. The evidence also indicates that non-voting shares and pyramiding are the main devices set to entrench the large controlling shareholder. There is some evidence that firm valuation and performance are negatively related to voting concentration, and that foreign-owned firms perform the best while government-owned firms perform the worst.

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Margaret Wang

After the collapse of a number of well-known companies such as Enron and WorldCom, there has been much debate over which is the most effective model of corporate governance in monitoring the board of directors from misconduct: the Anglo-American model of independent directors or the German model of supervisory boards. Most countries have chosen to adopt one either the Anglo-American or the German model. However, the People's Republic of China ("China") has adopted both models of corporate governance. This paper seeks to explore the differences between the two models as they apply in China. Finally, an evaluation will be made to ascertain whether the two models encounter the same problems and whether either or both of these two models would be able to effectively monitor Chinese boards.

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