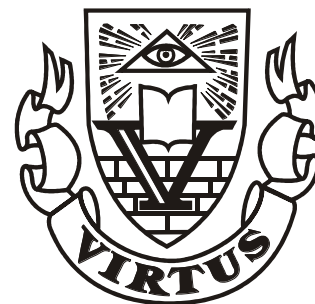


# CORPORATE OWNERSHIP & CONTROL

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## CONTENTS



**Editorial**

4

## SECTION 1. ACADEMIC INVESTIGATIONS AND CONCEPTS

### **GOVERNMENT CONTROL AND THE HIGHER COSTS OF GOING PUBLIC: EVIDENCE FROM A NEW STOCK MARKET IN CHINA**

9

*Nobuyuki Teshima, Katsushi Suzuki*

IPO underpricing or the *indirect* cost of going public is extremely high in China. We hypothesize that government control over the corporate economy underlies this puzzle. Specifically, bureaucratic managers in state-owned firms as well as regulatory authorities have incentives to underprice. Using a sample of a new stock market in China, we find evidence supporting this hypothesis. Underpricing is higher for state-owned firms and for IPOs before the reform making IPO prices less affected by the regulator. Furthermore, we find that the reduction in underpricing or indirect cost by the reform more than offsets the increase in *direct* costs for compensating underwriters' higher efforts. Overall, the reform making IPO process more market-oriented is beneficial to Chinese firms going public.

### **SEPARATION BETWEEN MANAGEMENT AND OWNERSHIP: IMPLICATIONS TO FINANCIAL PERFORMANCE**

16

*Zélia Serrasqueiro, Paulo Maçãs Nunes*

Using panel data, this article shows that agency costs, a consequence of the separation between ownership and management, are not relevant in explaining the financial performance of Portuguese companies since, on the one hand, greater size, greater liquidity and higher level of risk do not mean decreased financial performance and, on the other, greater level of debt does not mean increased financial performance. The results indicate that the fact of managers being better informed than owners, about companies' opportunities and specific characteristics, does not necessarily mean behaviour that contributes to diminished financial performance in Portuguese companies.

### **THE DETERMINANTS OF CAPITAL STRUCTURE: THE CASE OF LONG-TERM DEBT CONSTRAINT FOR JORDANIAN FIRMS**

22

*Rami Zeitun, Gary Tian*

This paper contributes to the capital structure literature by investigating the determinants of capital structure of Jordanian companies with the constraint of inadequate long-term debt as their source of financing and regional risk. We firstly document that Jordanian companies mostly depend on short-term debt, as a result of the banking credit policy that promotes short-term debt. Our results suggest that the level of gearing in Jordanian firms is positively related to size, tangibility, and earning volatility, and negatively correlated to profitability, the level of growth opportunities, liquidity and stock market activities. The level of gearing measured by short-term debt is, however, negatively

correlated to tangibility. The Gulf Crisis between 1990 and 1991 is also found to have a significant but positive impact on Jordanian corporate leverage.

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**DIVIDENDS AND INSTITUTIONAL INVESTORS ACTIVISM:  
PRESSURE RESISTANT OR PRESSURE SENSITIVE? 38**

*José María Díez Esteban, Óscar López-de-Foronda*

This paper provides new international evidence on the relationship between dividend policy and institutional ownership by analysing a sample of US and UK and Irish firms characterised by an Anglo-Saxon tradition and a matching sample of other EU companies from Civil Law legal systems. We find that while in firms from Anglo-Saxon tradition the relation between dividends and institutional investors, pension and investment funds, is positive, in Civil Law countries the relation is negative where investors are banks or insurance companies with other private interest inside the firm.

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**INFORMATION SIGNALING AND OWNERSHIP TRANSITION –  
VALUE EFFECTS OF SHARE ISSUE PRIVATIZATIONS 44**

*Martin Ahnefeld, Mark Mietzner, Tobias Roediger, Dirk Schiereck*

This paper discusses whether SIPs generate positive announcement returns because of increased efficiency after the ownership transition. We apply a market model event-study methodology based on a sample of 134 SIPs in the 1979-2003 period. We identify significantly negative CAARs between -0.125% and -1.766% and find that firm and offering size, the proportion of secondary shares issued within the SIP as well as the market environment have a negative impact on announcement returns. In contrast, the negative CAARs are less distinctive for enterprises that had prior SIPs.

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**CEO DUALITY AND FIRM PERFORMANCE—AN ENDOGENOUS ISSUE 58**

*Chia-Wei Chen, J. Barry Lin, Bingsheng Yi*

Whether dual CEO leadership structure is better for corporations is one of the most hotly debated issues in corporate finance. This paper uses a recent data to re-examine the relationship between CEO duality and firm performance, controlling for other important variables such as firm characteristics, ownership structure, CEO compensation, and agency costs. We find a recent trend of increased number of firms converting from dual to non-dual CEO structure. However, our empirical results do not show a significant relationship between CEO duality and firm performance nor improvement in firm performance after change in leadership structure. We find evidence of endogeneity, and we attribute the insignificance of the relationship between CEO duality and firm performance to the possibility that CEO duality is endogenously and optimally determined given firm characteristic and ownership structure.

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**VALUE BASED FINANCIAL PERFORMANCE MEASURES: AN EVALUATION OF  
RELATIVE AND INCREMENTAL INFORMATION CONTENT 66**

*Pierre Erasmus*

This paper investigates the ability of four VB measures to explain market-adjusted share returns and compare it to that of some traditional measures. Empirical results indicate that the relative information contents of the VB measures are not greater than that of earnings. The incremental information content tests indicate that their components add significantly to the information content of earnings, but that the level of significance is relatively low.

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**MIGRATION TO “NOVO MERCADO”: DOES IT REALLY MEAN IMPROVEMENT OF  
CORPORATE GOVERNANCE PRACTICES? 78**

*Andre Carvalhal, Guilherme Quental*

This paper addresses this question by investigating the stock market reaction to the listing on Novo Mercado without improving governance practices. We provide evidence that firms that list on NM and improve governance practices earn positive abnormal returns, have higher liquidity and lower

volatility. On the other hand, firms that list on NM without improving governance practices do not earn positive returns, but are rewarded with higher liquidity and lower volatility.

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**OWNERSHIP AND CONTROL OF ITALIAN BANKS:  
A SHORT INQUIRY INTO THE ROOTS OF THE CURRENT CONTEXT** **87**

*Leonardo Giani*

This work does a short inquiry into the past experience of the Italian banking law and the ownership structure of the Italian credit industry. The inquiry is especially focused on the role played by culture and other historical events (e.g. political ones) in shaping the Italian economic framework. In other words, this paper wants to trace a short and descriptive outline of the evolution of the Italian banks' ownership structure in order to show how political and social factors counted in determining the present features of the system.

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**THE EFFECT OF THE SOUTH AFRICAN MARKET CONCENTRATION  
ON PORTFOLIO PERFORMANCE** **99**

*Jakobus Daniël (JD) van Heerden, Sonja Saunderson*

Portfolio risk is mainly a function of portfolio concentration and covariance between the assets in a portfolio. This study shows that South Africa experiences a high level of market concentration and that assets with large weights in the FTSE/JSE All Share Index (ALSI) have large covariances with each other. Together these two phenomena suggest that a high level of portfolio risk can be expected. Active portfolio managers in South Africa generally attempt to decrease portfolio concentration by deviating from the benchmark's weighting structure in order to decrease their portfolio risk. The effect of such a portfolio construction process on the measurement of relative performance, where the ALSI is used as the benchmark, was investigated by means of a simulation process. The results indicated that during times when those shares with larger weights in the index perform well, the probability of outperforming the ALSI is very small, while the probability of outperforming the ALSI during times when those same shares perform poorly is very high. These findings suggest that investors need to be educated about the bias regarding relative performance measurement using broad market indices, while alternative or additional methods of performance measurement need to be investigated to minimise this bias.

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## SECTION 2. STOCK OPTIONS

**THE IMPACT OF EXPENSING STOCK OPTIONS IN  
BLOCKHOLDER-DOMINATED FIRMS. EVIDENCE FROM ITALY** **107**

*Andrea Melis, Silvia Carta*

This paper has investigated the economic consequences of recording the cost of stock options at its fair value, in terms of its impact on the companies' reported earnings, and other key financial performance indicators, such as diluted earnings per share (EPS) and return on assets. The impact of the mandatory recording of the cost of stock options measured at its fair value has generally reduced the reported earnings and other key performance measures moderately. Despite some evidence of creative accounting which was found concerning the elusion of the substance over form principle for the accounting of stock options plans set up before 7<sup>th</sup> November 2002, accounting regulation has increased the level of disclosure by making companies report the "true" cost of stock options in their Profit or Loss. Based on 2004 stock-based remuneration disclosures of the value of options given to directors and employees, the expensing of options have a material negative impact on nearly 30 per cent of the sample firms' reported income and diluted EPS.

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**IS THERE A FIRM-SIZE EFFECT IN CEO STOCK OPTION GRANTS?** **115**

*Bruce Rosser, Jean Canil*

We substitute Hall and Murphy's (2002) pay-performance sensitivity metric to detect a firm size effect in CEO stock option grants. After adjusting for small-firm risk aversion and private diversification 'clienteles', we document evidence of a residual small-firm effect impacting on incentive strength

principally through grant size. Given lower small-firm deltas, grant size appears to have been increased by compensation committees to ensure small-firm CEOs are not under-compensated relative to their large-firm counterparts.

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## SECTION 3. NATIONAL CORPORATE GOVERNANCE: AUSTRALIA

### **A PRINCIPLES-BASED ANGLO GOVERNANCE SYSTEM IS NOT A SCIENCE BUT AN ART**

127

*Suzanne Young, Vijaya Thyil*

This paper through interviewing a number of Australian business executives adds to the academic literature by providing evidence from the field of the important characteristics of the Australian governance system, the drivers of change and the effectiveness of the principles-based approach. It argues that debate needs to move beyond the principles versus rules approach to look at how firms can be provided with more guidance in operationalising some of the principles that appear to be key to governance effectiveness. It concludes that there is a need for a holistic model of governance that is broader than that focusing on the control/legalistic approach; that top management is important in setting and driving the in-firm governance agenda; that the public needs to be informed and educated about governance and its importance; and that disclosure still requires an improvement in quality.

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### **THE IMPACT OF CORPORATE GOVERNANCE LEGISLATION ON THE MARKET FOR CORPORATE OWNERSHIP**

138

*Joseph Canada, Tanya Benford, Vicky Arnold, Steve G. Sutton*

The purpose of this study is to examine how a company's decision to shift corporate ownership and/or corporate control in the face of new corporate governance legislation and regulatory requirements can alter the traditional markets for ownership and control. In order to examine this issue, the paper first develops a typology for predicting the type of organizational restructuring that might occur. This typology incorporates factors from prior research and disentangles the market for ownership from the market for corporate control. The typology is then used as a basis for an in-depth examination of an organization whose corporate structure changed in response to mandated changes in corporate governance. The results provide evidence that corporate governance legislation can potentially induce incumbent management to voluntarily compete in the market for ownership, notwithstanding the associated exposure in the market for managerial control.

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## SECTION 4. PRACTITIONER'S CORNER

### **THE SOX 404 PROCEDURE; IS IT STILL SO REPELLING TO FOREIGN ISSUERS?**

147

*Marina Stefou*

The recent banking crises and the famous financial scandals have revealed the need for strong internal control mechanisms. However, due to the inherent limitations of internal control achievement of the financial reporting objectives cannot be absolutely ensured. A great reform in the internal control mechanism was introduced by the controversial Article 404 of Sarbanes-Oxley Act of 2002. This paper lays out the internal control provision described in Sarbanes-Oxley Act, presents the extraterritorial effects on foreign issuers, compares and summarizes overall findings towards ensuring a better financial environment with regard to the international and European corporate governance framework applied.