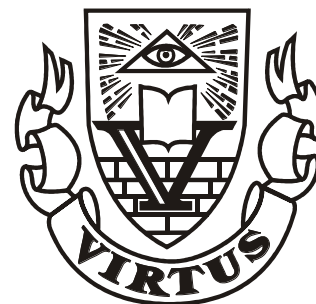


CORPORATE OWNERSHIP & CONTROL

VOLUME 12, ISSUE 3, SPRING 2015

CONTENTS



EDITORIAL 4

SECTION 1. ACADEMIC INVESTIGATIONS AND CONCEPTS

DOES EVA BEAT EARNINGS? A LITERATURE REVIEW OF THE EVIDENCE SINCE BIDDLE ET AL. (1997) 8

Jon Svenesen Toft, Rainer Lueg

17 years ago, Biddle et al. (1997) demonstrated that sophisticated residual income-based figures are not as superior to traditional accounting-based performance measures in tracking shareholder value as consulting firms have claimed. During these 17 years, the intensive discussion of which type of measure tracks shareholder value creation the best continued, both from a theoretical and a practical perspective. This article compares the new findings from advanced research between 1997 and 2014 to assess the ongoing validity of Biddle et al.'s (1997) conclusions. We separate articles into two groups: the ones that find accounting-based performance measure to perform best, and the ones who speak in favor of residual income-based performance measures. In order to do this, we have scanned 618 articles that relate to the findings of Biddle et al. (1997) and analyze the 21 articles that actually contributed new evidence. We find that the conceptual discussion still favors management control systems based on the more sophisticated residual income-based measures. Yet empirically, the vast majority of new studies with advanced research designs still find that accounting numbers are by no means inferior in measuring shareholder value creation.

GOING-CONCERN OPINIONS, EXECUTIVE TENURE AND GENDER 19

Angie Abdel Zaher

Regulators in the USA and elsewhere have shown renewed interest in auditors' judgments related to going-concern modified (GC) audit reports. Such judgments involve evaluating management's plans, and prior research suggests that executive turnover is associated with significant organizational changes. Further, some recent studies posit that gender is associated with accounting and audit judgments. We examine audit opinions for two different samples: 2,089 financially stressed firms and 642 manufacturing firms that filed for bankruptcy. In both samples, we find that GC opinions are more likely for firms with a new CFO; however, we find no significant association between GC opinions and executives' gender. The CFO tenure related result may arise from auditors' professional skepticism related to a new executive. Our gender-related results differ from those of Gold et al. (2009) and suggest the need for additional research related to the role of client gender in auditing settings.

'SAY ON PAY' REGULATION AND CHIEF EXECUTIVE OFFICER PAY: EVIDENCE FROM AUSTRALIA 28

Mahdi Faghani, Reza Monem, Chew Ng

We investigate the consequences of Australia's 'say on pay' regulation on the chief executive officer (CEO) compensation using recent data. We find that, for the 'first-strike' firms that avoided a 'second strike' (the treatment firms), a reduction in CEO total remuneration is positively associated with a

lower level of shareholder dissent votes on the following remuneration report. We also find that, unlike control firms, the treatment firms increased the proportion of CEO's performance-based pay in the year following the 'first strike' and such an increase is negatively related to a change in shareholders' dissent level. Further, detailed descriptive analysis suggests that the 'first-strike' firms made relatively more frequent and larger pay reductions by reducing the level of pay in one or more components of the CEO pay.

SECTION 2. CORPORATE GOVERNANCE AND RISK TAKING

TESTING THE CAPITAL ASSET PRICING MODEL IN THE ITALIAN MARKET 40

Carmine De Chiara, Giovanni W. Puopolo

In this paper we provide an empirical investigation of the classic Capital Asset Pricing Model (CAPM) on all firms listed in the Italian stock exchange at the monthly frequency. We intend to show that the CAPM, despite the heavy critical comments, still holds in the Italian market when returns are measured at the monthly frequency. Most importantly, our evidence indicates that the market portfolio fully explains the cross section of stock returns and there is no need to appeal for additional determinants. Our results have very important implications for long term investors who can forecast the expected excess stock returns by simply determining the β of the stock and the expected excess market return.

THE STRUCTURAL CHANGE OF MUTUAL FUND HERDING IN CHINA STOCK MARKET 48

Wanbin Pan, Jun Shan

This paper examines the structural change of mutual fund herding in china stock market, an important investment behavior of institutional investors. A self-normalization based Kolmogorov-Smirnov test is employed to test the change point of herding from 2002 to 2011, the results suggest that there really be structural change points in mutual fund herding. The mutual fund herding changed at December 2004, June 2007 and December 2008. The structural change of the mutual fund herding can be explained by the financial environment of China stock market.

HOW BANKS' INTERNAL GOVERNANCE MECHANISMS INFLUENCE RISK REPORTING 55

Mohammad Jizi

Banks were the center of the recent financial crisis that results in a sharp decline in security prices and banks' market capitalization. The content of information in general, and risk information in particular, provided to capital markets was vital to reduce the uncertainly levels left in the markets and encourage trading. Examining the impact of the internal corporate governance mechanisms on the content of risk management disclosures using a sample of US national banks in the wake of the financial crisis shows that banks having larger board size and higher proportion of independent directors are more inclined toward disclosing wider content of risk management information. The results also suggest that CEO duality impacts positively on risk management disclosures content to provide signals toward CEO objectivity and judgment in running business operations aligned with shareholders' interest.

SECTION 2. NATIONAL PRACTICES OF CORPORATE GOVERNANCE

INVIGORATE CORPORATE BOARD THROUGH INDIAN SCRIPTURES 73

Mridula Sahay, Kuldeep Kumar

There have been scores of corporate failure all over the world due to poor corporate governance or lapse in well manage corporation at the board level; due to this transparency, accountability, fiduciary duty, interest of shareholders, etc. are impinged on. Erosion of values, wisdom, righteousness, fairness, equanimity in judgment, etc. are appear to be possible attributes responsible for accelerating to corporate turpitude. Hence, this paper attempt to draw attention of the board members to look into

Indian scriptures and harmonize them to achieve sustainable and effective good governance and accentuate on their potential in helping to fulfill board's responsibilities effectively. It also discusses about principles and guidelines of Indian scriptures for good governance that can be adopted in today's time.

BUSINESS CYCLES AND STOCK MARKET PERFORMANCE IN SOUTH AFRICA 84

Forward Muchaonyerwa, Ireen Choga

The stock market is an important indicator of an economy's financial health. It checks the mood of investors in a country. Stock market performance is a vital component of business cycle growth. Thus, this study investigates the relationship between stock market performance and business cycles in South Africa for the period 2002-2009 using monthly data. This is done by constructing a Vector Error Correction Model (VECM). The study specifies a business cycle model with the business cycle coincident indicator of South Africa being the independent variable explained by the All Share Price index (ALSI), Real Effective Exchange Rate (REER), Money Supply (M1), Inflation (CPIX) and the Prime Overdraft Rate (POR). The ALSI represents stock market performance whilst the rest of the variables are to enhance model specification. The study found a positive association between stock market performance and business cycles and this match with most of the results from the empirical literature provided.

**NEW EVIDENCE ON THE PERFORMANCE OF ITALIAN PRIVATIZED FIRMS:
SHOULD THE EXPERIMENT BE REPEATED IN THE AFTERMATH
OF THE RECENT FINANCIAL CRISIS? 94**

Ottorino Morresi, Andrea Oro Nobili

We provide new evidence on the performance of privatized firms in Italy. On a large sample of 53 non-financial firms privatized from 1992 to 2005, our study shows that privatizations improve efficiency and profitability ratios, sales, and dividend payout. The most important determinant of performance and efficiency gains is the full transfer of control to private investors. Unlike the prevalent international evidence, we find that privatizations result in an increase of leverage ratio and do not affect the number of employees. Moreover, in contrast to international studies, we also find that efficiency and performance improvements are larger in firms operating in protected sectors, and that state-owned firms acquired by foreign investors do not appear to fare better after their privatization. Finally, we find that performance and efficiency gains already occur some years before the date of privatization.

**ROLE AMBIGUITY AND CONFLICTS: A STUDY OF COMPANY SECRETARIES
AND TWO-TIER BOARDS IN THE NETHERLANDS 114**

Stefan Peij, Pieter-Jan Bezemer, Gregory Maassen

Recent research suggests that company secretaries are increasingly involved in governance responsibilities in addition to traditional administrative tasks. Little is known in the literature, however, about company secretaries' changing governance role, and their daily challenges in liaising with boards and other stakeholders. In addition, few studies have been able to gain access to learn firsthand how company secretaries operate. This exploratory study fills this void by gaining access to the opinions of about one hundred company secretaries in the Netherlands who operate in the two-tier board system. Our findings indicate that company secretaries significantly influence an organisation's governance framework, while they face a number of practical challenges with directors, employees and management in fulfilling their diverse roles and responsibilities.

SUBSCRIPTION DETAILS 124