EDITORIAL

Dear readers!

The recent issue of the journal Corporate Ownership and Control pays attention to issues of corporate ownership and control, corporate social reporting, earnings management and audit. More detailed issues are given below.

Kunofiwa Tsaurai investigates the long run relationship between economic growth and gross domestic savings for Zimbabwe during the period 1980 to 2011. Hedy Jiaying Huang, Ning Zhou, Keith Hooper make an attempt to answer the question “Is the CSR of the mining companies verifiable and is what they report possibly untrue?”. Marita Naude proposes a framework combining SD, CAS and reflection. Wei Qian suggests that future policy needs to focus more on ensuring strong corporate governance system and encouraging the integration of environmental aspects into governance agenda. Udo C. Braendle, Alireza Omidvar, Ali Tehraninasr analyze the status quo of Corporate Governance in Iranian companies. Achuzia Somuawine Azani, Mei Yu, Osita Chukwulobelu examine the extent of compliance to the Central Bank of Nigeria (CBN) 2006 Corporate Governance Code by 24 Nigerian commercial banks and reveals a compliance level of 76.6%.

Ben-Hsien Bao, Richard Chung, Yanjun Niu, Steven Wei examine the presence of real activities manipulation (REM) of IPO firms utilizing the cross-sectional regressions on each industry-year (Roychowdhury, 2006) and show that IPO firms have significantly negative abnormal cash flows from operations and significantly positive abnormal production costs in the IPO year. Helen Kang, Sidney Leung, Richard D. Morris, Sidney J. Gray examine the extent to which the first-time adoption of the Australian Stock Exchange (ASX) Corporate Governance Council’s corporate governance principles and recommendations was associated with lower levels of earnings management.

Hsiangtsai Chiang shows that the potential magnitude of the agency costs associated with interest entrenchment increases the demand for auditors whose audit quality is perceived to be higher with regard to the signaling role of audits, but decreases the probability of engaging individual specialist auditors who actually carry out higher quality audits with regard to substantial monitoring. Omar Farooq tries to answer the questions “How does change in corporate governance regimes effect financial analysts? Are analysts able to incorporate the effect of better governance regimes in their recommendations?” by documenting the effect of corporate governance mechanisms on the performance of analysts’ recommendations in Asian emerging markets during the pre-crisis and the post-crisis periods. Ng Sin Huei, Philip Shrives, Yeoh Ken Kyid attempt to examine the potential occurrence of profit redistribution in family-controlled business groups in Malaysia.

We hope that you will enjoy reading the journal and in future we will receive new papers, outlining the most important issues and best practices of corporate governance!
SECTION 1. ACADEMIC INVESTIGATIONS & CONCEPTS

IS THE SAVINGS-LED GROWTH HYPOTHESIS VALID FOR ZIMBABWE?  

Kunofiwa Tsaurai

This study investigates the long run relationship between economic growth and gross domestic savings for Zimbabwe during the period 1980 to 2011. The causality relationship between savings and economic growth has been a subject of extensive debate for almost half a century now. There are currently two dominant views regarding the relationship between savings and economic growth. The first view maintains that it is the growth of savings that drives economic growth. The second view argues that it is economic growth that spurs savings expansion. Using the case study methodology, the study revealed that GDP per capita had a significant positive influence on the quantity and level of gross domestic savings and not the other way round. Policies that are targeted at boosting GDP per capita should be accelerated in order to promote long-term and sustainable growth gross domestic savings for in Zimbabwe.

VERIFIABILITY AND TRUTH: CORPORATE SOCIAL REPORTING IN MINING IN CHINA  

Hedy Jiaying Huang, Ning Zhou, Keith Hooper

This research is to investigate 2011 corporate social reporting (CSR) of the mining companies listed on the Shanghai index. The research question is following: “Is the CSR of the mining companies verifiable and is what they report possibly untrue?”. The study analysed 17 companies (out of 33 mining companies listed on the Shanghai index) that produced corporate social reports in 2011. The reports were analysed as to activities highlighted are symbolic or substantive. Such activities were then cross-analysed as to their being positive or negative. Of the 17 companies only two reports were audited and thus determined as being verified. The finding is that most of the companies reported on symbolic positive activities (possibly true but without substance) and a few companies reported on substantive positive activities (truths). However, these truths result from resolving issues that these companies have themselves created. Only one companies disclosed substantive negative activities that resulted in serious financial penalty and imprisonment for the management whereas most of the others did not disclose any negative. The mining sector is chosen for analysis as it represents one of the older and dirtier industries in China. The paper builds on the scepticism contained in the CSR literature.
ENHANCING SUSTAINABLE DEVELOPMENT THROUGH IMPLEMENTING COMPLEX ADAPTIVE SYSTEMS AND REFLECTION: A PROPOSED FRAMEWORK

Marita Naude

Most organizations regard Sustainable Development (SD) as important and within a tridimensional approach (including economic, social and environmental dimensions) SD comprises a range of complex issues. However, traditional management approaches do not capture the variabilities as organizations are complex adaptive systems embedded in a complex adaptive context. Consequently, there must be a fundamental shift towards a complexity theory approach (eg. Complex Adaptive Systems, CAS). When SD is viewed from a CAS approach it becomes a continuous process of co-evolution within a rapidly changing context rather than a once off project. Leaders, managers and practitioners work in this complex and rapidly shifting world need crucial skills such as reflection. This paper proposes a framework combining SD, CAS and reflection. Although a framework does not guarantee success it provides a tool to identify SD, CAS and reflection dimensions, develop an integrated approach, create goals, monitor and evaluate outcomes. Lastely, the paper includes management and research implications.

LEGITIMACY OR GOOD GOVERNANCE: WHAT DRIVES CARBON PERFORMANCE IN AUSTRALIA

Wei Qian

Previous studies present diverse views on carbon performance. The legitimacy perspective posits that external forces from a wide range of stakeholders drives environmental performance change, while the governance perspective posits that strong internal governance structure leads to performance improvement. This study empirically examines the validity of these different perspectives. Using data released by top polluting companies included in the Australian National Greenhouse and Energy Reports (NGER), the study finds that better governance structures are significantly associated with higher carbon performance, but there is no significant relationship between external carbon disclosure and carbon performance. The results suggest that future policy needs to focus more on ensuring strong corporate governance system and encouraging the integration of environmental aspects into governance agenda.

ON THE SPECIFICS OF CORPORATE GOVERNANCE IN IRAN AND THE MIDDLE EAST

Udo C. Braendle, Alireza Omidvar, Ali Tehraninasr

Corporate Governance (CG) is not a new concept for the transition economies of the Middle East, but corporate governance is especially important since these economies do not have the long-established institutional infrastructure to deal with corporate governance issues. This article is presenting the results of our survey analyzing the status quo of Corporate Governance in Iranian companies. The survey questions cover aspects of Corporate Governance awareness, board of directors, control environment, transparency and shareholder- as well as stakeholder rights. We find several specifics that apply to other countries in the MENA region too. Empowering shareholders and stakeholder, offering Corporate Governance trainings and case studies in the region as well as establishing a culture of independent directors is the way forward.

CORPORATE GOVERNANCE COMPLIANCE AND ITS EFFECTIVENESS IN THE NIGERIAN BANKING INDUSTRY

Achuzia Somuawine Azani, Mei Yu, Osita Chukwulobelu

This paper examines the extent of compliance to the Central Bank of Nigeria (CBN) 2006 Corporate Governance Code by 24 Nigerian commercial banks and reveals a compliance level of 76.6%. The major non-compliance areas include non-constitution of a board committee consisting of non-executive directors, that regulates the compensation for executive directors, and the non-inclusion of independent directors on the main boards of many banks. Furthermore, the analysis shows that the benefits resulting from the changes for compliance outweighed the additional layers of supervisory
checks and bureaucratic overbearing associated with the Code. The Code has brought about more effective corporate governance, accountability and greater transparency despite a low frequency of supervision and examination of the banks by the CBN.

SECTION 2. EARNINGS MANAGEMENT AND CORPORATE GOVERNANCE

REAL AND ACCRUAL EARNINGS MANAGEMENT AROUND IPOs: US EVIDENCE

Ben-Hsien Bao, Richard Chung, Yanjun Niu, Steven Wei

This study examines the presence of real activities manipulation (REM) of IPO firms utilizing the cross-sectional regressions on each industry-year (Roychowdhury, 2006). The real activities examined in this paper include sales manipulation, reduction of discretionary expenses and overproduction. We show that IPO firms have significantly negative abnormal cash flows from operations and significantly positive abnormal production costs in the IPO year. The findings suggest that IPO firms not only manipulate accruals to inflate reported earnings, but also engage in real activities manipulation. We also show that IPO firms’ decisions to manipulate earnings in the IPO year is positively related to the amounts of IPO proceeds and negatively related to the underwriters’ reputation rankings and the presence of venture capital.

CORPORATE GOVERNANCE AND EARNINGS MANAGEMENT: AN AUSTRALIAN PERSPECTIVE

Helen Kang, Sidney Leung, Richard D. Morris, Sidney J. Gray

This study examines the extent to which the first-time adoption of the Australian Stock Exchange (ASX) Corporate Governance Council’s corporate governance principles and recommendations was associated with lower levels of earnings management. Cross-sectional results indicate that the existence of an audit committee was associated with lower levels of earnings management in pre-, but not post-, recommendations. Lower director ownership was associated with higher levels of earnings management pre-, but not post-, recommendations. On the other hand, the existence of a remuneration committee was associated with lower levels of earnings management pre- and post-recommendations. In addition, longitudinal analysis shows that, following the first-time adoption, the only governance mechanism associated with reductions in earnings management was the establishment of a remuneration committee.

SECTION 3. CORPORATE GOVERNANCE IN SOUTH-EASTERN ASIA

AGENCY CONFLICTS AND CHOICE OF SPECIALIST AUDIT FIRMS AND AUDIT PARTNERS: SIGNALING OR SUBSTANTIAL MONITORING?

Hsiangtsai Chiang

This study contributes to the literature on company audits by examine the demand-side effects of the selection of industry-specialist audit firms and auditors; it does this by considering the impact of the agency problem that exists between controlling owners and minority shareholders. It is shown that the potential magnitude of the agency costs associated with interest entrenchment increases the demand for auditors whose audit quality is perceived to be higher with regard to the signaling role of audits, but decreases the probability of engaging individual specialist auditors who actually carry out higher quality audits with regard to substantial monitoring.
GOVERNANCE REFORMS AND PERFORMANCE OF ANALYSTS’ RECOMMENDATIONS: PRE- AND POST-CRISIS ANALYSIS FROM ASIAN EMERGING MARKETS

Omar Farooq

How does change in corporate governance regimes effect financial analysts? Are analysts able to incorporate the effect of better governance regimes in their recommendations? This paper aims to answer these questions by documenting the effect of corporate governance mechanisms on the performance of analysts’ recommendations in Asian emerging markets during the pre-crisis and the post-crisis periods. Using a large dataset of analyst recommendations, we document that analysts were not able to generate informative recommendations during the post-crisis period (better governance regime). We report that performance of analyst recommendations deteriorated significantly during the post-crisis period relative to the pre-crisis period (poor governance regime). Our results indicate relative ineffectiveness of governance reforms initiated after the Asian financial crisis of 1997-98.

PROFIT REDISTRIBUTION IN FAMILY-CONTROLLED, GROUP-AFFILIATED PUBLICLY-LISTED CORPORATIONS IN MALAYSIA

Ng Sin Huei, Philip Shrives, Yeoh Ken Kyid

This paper attempts to examine the potential occurrence of profit redistribution in family-controlled business groups in Malaysia. It is argued that there exists a tendency for business groups with extensive family ownership and control to redistribute resources from group affiliates that outperformed to affiliates that underperformed. This phenomenon is prevalent particularly in large business groups where the link between business groups and politics is most clearly displayed. Such ‘propping up’ activities are believed to adversely affect the shareholders of the outperforming affiliates as the performance of these affiliates diminishes due to the profit redistribution. They also result in inefficient allocation of resources within the business group, though it is found that higher board independence may reduce such inefficiency.

SUBSCRIPTION DETAILS