

**CORPORATE  
OWNERSHIP & CONTROL**

**КОРПОРАТИВНАЯ  
СОБСТВЕННОСТЬ И КОНТРОЛЬ**

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## EDITORIAL

*Dear readers!*

The recent issue of the journal *Corporate Ownership and Control* pays attention to issues of executive compensation, investments risks management, corporate audit issues, corporate codes etc. Board of directors issues and peculiarities of corporate governance in developing countries are also under the scope of researches. More detailed issues are given below.

*Antony Jackson* shows that the presence of asymmetric information can also provide a positive externality to those market participants who operate in multiple markets-portfolio managers. *Udo C. Braendle and John E. Katsos* studying intrinsic and extrinsic incentives argue that shareholders' failure to provide the right balance to motivate senior managers to perform at their best is not the result of compensation packages as such, but on the focus of compensation packages on extrinsic motivators such as pay-for-performance bonuses and stock options. *N.J. Godi and J. Young* aim to identify risks which investors are exposed to when investing offshore and ranking these risks in order of importance, based on a literature review as well as views and experiences of South African investment brokers registered with the Financial Services Board. *Silvia Testarmata, Alessia Montecchia and Emiliano Di Carlo* focus on the disclosure of environmental sustainability in codes of ethics, investigating the case of Italian listed companies. *Michalis Bekiaris, Thanasis Efthymiou and Andreas G. Koutoupis* record the current situation regarding the mode of interaction of the economic crisis in corporate governance and risk management.

*Kiridaran Kanagaretnam, Gerald J. Lobo and Dennis J. Whalen* examine the relationship between board independence and firm performance over multiple years, post-Sarbanes Oxley. *Tsun-Jui Hsieh and Yu-Ju Chen* investigate the impact of outside directors on firm performance during legal transitions and examine how the roles of family business and director compensation influence board efficacy.

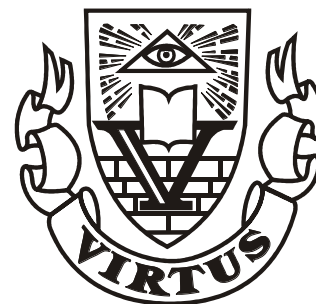
*Andre Carvalhal, Cesar Martins and Otavio Figueiredo* analyze the relation between stock price changes and high volume trades in Brazil. Using a unique intra-day database, authors evaluate 10 of the most liquid shares from 2001 to 2006. *F Cronje, J.H. van Rooyen* single out and demonstrate the effect of the minimum capital requirements on the profitability, composition and size of a bank balance sheet. Research is based on South African data.

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!

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**ASYMMETRIC INFORMATION, TRADING VOLUME, AND PORTFOLIO PERFORMANCE**

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*Antony Jackson*

In this paper, author shows that the presence of asymmetric information can also provide a positive externality to those market participants who operate in multiple markets—portfolio managers. Specifically, insiders lower the estimation errors of portfolio selection methods, thus improving asset allocation. Author develops multiple artificial markets, in which portfolio managers trade alongside informed and uninformed speculators, and researcher contrasts the performance of ‘volatility timing’—a method that relies on efficient price discovery—with that of ‘naive diversification’. Volatility timing is shown to consistently outperform naive diversification on a risk-adjusted basis.

**HOW TO CONTROL THE CONTROLLER – CEO COMPENSATION AND MOTIVATION**

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*Udo C. Braendle, John E. Katsos*

One of the main control mechanisms that shareholders have used to rein in rogue managers is compensation. Through a combination of intrinsic and extrinsic incentives, shareholders have tried to provide the right balance to motivate senior managers to perform at their best. Shareholders have often failed in achieving this balance through compensation. In this paper, authors argue that this failure is not the result of compensation packages as such, but on the focus of compensation packages on extrinsic motivators such as pay-for-performance bonuses and stock options. Instead, the focus of compensation packages should be on cultivating intrinsic motivators such as firing and prestige.

**RISKS TO CONSIDER WHEN INVESTING OFFSHORE**

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*N.J. Godi, J. Young*

When investors engage in international business, transactions and operations, they encounter additional risks compared to trading domestically. Different languages, currencies, jurisdictions, customs and habits can be translated into extra informational asymmetries and transaction costs that may affect the smooth operation of business. Political transitions can also play an important role in the success of an offshore investment, especially in a world full of political uncertainty. As such, mitigating offshore risks is a significant factor in the success of overseas projects, investments and contracts. As such, this paper aims to identify risks which investors are exposed to when investing offshore and ranking these risks in order of importance, based on a literature review as well as views and experiences of South African investment brokers registered with the Financial Services Board.

**ENHANCING ENVIRONMENTAL SUSTAINABILITY THROUGH CODES OF ETHICS: THE CASE OF ITALIAN LISTED COMPANIES**

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*Silvia Testarmata, Alessia Montecchia, Emiliano Di Carlo*

Codes of ethics aim to disclose corporate social responsibility and to promote ethical culture throughout the firms. Several studies have investigated the content of such codes to identify what values are declared within. However, so far literature on codes of ethics seems not to have considered adequately the question of environmental protection. Therefore this paper focuses on the disclosure of environmental sustainability in codes of ethics, investigating the case of Italian listed companies. Adopting a content analysis methodology, the paper explores the environmental section of these codes in order to assess the salience of environmental sustainability in the strategic orientation of the firms, identifying the environmental principles, objectives, instruments and certification stated within the codes of ethics and highlighting whether and to what extent the environmental disclosure varies among industries. The research findings suggest that the Italian listed companies are more oriented to emphasize the environmental principles rather than to define precise objectives and instruments useful to achieve the environmental sustainability in practice. Nevertheless the more polluted industries seem to provide a wider environmental disclosure.

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*Michalis Bekiaris, Thanasis Efthymiou, Andreas G. Koutoupis*

The purpose of this paper, is to record the current situation regarding the mode of interaction of the economic crisis in corporate governance and risk management. This is achieved by conducting research which underpins the distribution of structured questionnaires in Greek professionals. In this way, it is presented a substantial imprinting of Greek views on a number of issues arising from the investigation of the above relation. In order to gather as much as possible essential information, it is performed a comparison of these global positions, by surveys carried out by the IIA, which had almost the same content. The conclusion is that the current economic conditions require a more effective form of corporate governance, while the three main weaknesses mentioned above are the areas that more focus should be given. Additionally, the most important factor that could highlight all risks in time is to perform audits on liquidity, capital and balance sheet consolidation. Still, there is a view that the ERM failed to recognize timely the danger of imminent economic crisis. Finally, budgets on internal audit have increased significantly, both in national and international level, while in the future the internal audit itself should have as a priority to consult the board, in order to identify, manage and monitor the key risks.

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**SECTION 2. CORPORATE BOARD PRACTICES**

**RELATIONSHIP BETWEEN BOARD INDEPENDENCE AND FIRM PERFORMANCE POST-SARBANES OXLEY**

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*Kiridaran Kanagaretnam, Gerald J. Lobo, Dennis J. Whalen*

Authors examine the relationship between board independence and firm performance over multiple years, post-Sarbanes Oxley. Authors hypothesize and find that the passage of Sarbanes Oxley, together with the new NYSE/NASDAQ regulations, result in independent directors who are more effective monitors of management, leading to stronger firm performance. Results should bolster investor confidence in the financial markets at a time when the NYSE/NASDAQ has strengthened the corporate governance standards for listed companies.

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*Tsun-Jui Hsieh, Yu-Ju Chen*

This paper investigates the impact of outside directors on firm performance during legal transitions and examines how the roles of family business and director compensation influence board efficacy. By using Taiwanese listed companies as the sample, the empirical results show that outside directors who are appointed by legal mandate have less positive impacts on firm performance than outside directors appointed voluntarily. Family business weakens the positive impact of outside director on firm performance. The evidence further suggests that director compensation contributes to firm performance, particularly when outside directors are voluntarily appointed. The findings provide western managers with an understanding of how the typical Chinese family business affects board independence. Authors also demonstrate and incorporate the cultural and the ownership characteristics into the analysis to present a country-specific pattern that should be informative for foreign investors who are concerned about the quality of corporate governance in East Asia.

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*Andre Carvalhal, Cesar Martins, Otavio Figueiredo*

This work analyzes the relation between stock price changes and high volume trades in Brazil. Using a unique intra-day database, authors evaluate 10 of the most liquid shares from 2001 to 2006. Unlike most international studies, which are based on data from funds or institutional investors, this article breaks new ground by working with publicly available information. Results indicate a positive and significant relation between stock price changes and high volume trades. In line with existing literature, the paper shows there are both temporary and partially permanent on stock prices after high volume trades. Study also indicates the existence of asymmetry between purchases and sales.

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*F Cronje, J.H. van Rooyen*

This research was to single out and demonstrate the effect of the minimum capital requirements on the profitability, composition and size of a bank balance sheet. It is clear from the research that banks are very sensitive to the new regulation. It also underlines how difficult it may be for banks to maintain profitability. The changes needed to maintain the profitability, may not be possible/feasible in the South African financial environment. The time is possibly right now for banks to start improving efficiency and developing new innovative low risk high return services and product lines.

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