

**CORPORATE
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EDITORIAL

Dear readers!

The recent issue of the journal *Corporate Ownership and Control* pays attention to issues of corporate ownership and control and board practices. Company performance, managerial compensation, corporate social responsibility, national peculiarities of corporate governance in Brazil are also under the scope of researches. More detailed issues are given below.

Baliira Kalyebara, Abdullahi D. Ahmed examine the impact of agency costs on the present value of a long term capital project and investment appraisal decision making in the airline industry to support better capital investment decision making in the future. *Cristina Bettinelli* and *Valeria Caviezel* in their study address the call for the development of team effectiveness scales that take team context into account. Their paper develops and validates a measurement scale for effectiveness in the specific context of boards of directors in family firms. *Giuseppe Grossi, Patricia Bachiller* analyze the theme of the corporate governance models of Italian utilities companies and explores how the changes of ownership structure after a merger affects financial performance. The objective of their paper is to study whether the mergers of utilities are effective for companies to be more competitive. *W L Crafford, F J Mostert, J H Mostert* investigate the improvement of financial decision-making by banks regarding the management of their liquidity. The importance of the liquidity management factors, the problem areas surrounding this topic, as well as how often the requirements are adjusted to ensure proper and effective liquidity management are addressed. *Mo'taz Amin Al-Sa'eed, Soud M. Al-Mahamid* in their research try to understand the features of an effective audit committee and its role in strengthening financial reporting among public listed companies on the Amman Stock Exchange. *Qian Li, Ebru Reis* study changes in the incentive structure of the CEOs in both parent and spun-off companies, and the effect of managerial incentives on operating performance due to an improved agency relationship between shareholders and managers of both firms after the spinoff.

J. Barry Lin, Bingsheng Yi, Jane Mooney apply several methodologies to examine the interplay among large shareholders. They found that firm performance is positively associated with insider and institutional ownership, but negatively associated with blockholder ownership. *Haiyan Jiang, Ahsan Habib* empirically examine the effect of ownership concentration on mitigating free cash flow agency problem in New Zealand. *Shihwei Wu, Fengyi Lin, Chiaming Wu* develop several models to examine the relationship between the corporate social responsibility (CSR) and the ownership structure of Taiwanese firms. Their results suggest that firms which are controlled by professional managers, government-owned, or collectively-owned would like to undertake serious efforts to integrate the CSR into various aspects of their companies. *Rami Zeitun and Duha Al-kawari* investigate the effect of government ownership structure, business risk and financial leverage among other variables (size, age and growth) on a company's performance in a panel data, using 191 companies from five GCC countries (Qatar, Saudi Arabia, Oman, Bahrain and Kuwait), during the period 1999- 2006.

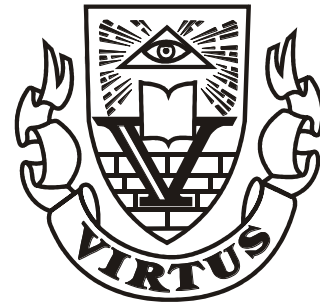
Thiago Emmanuel, Andre Carvalho, Marcos Avila analyse the relationship between social responsibility and financial performance of Brazilian companies. They analyze 515 Brazilian companies listed on BM&FBovespa from 2001 to 2007 and check which companies have disclosed the IBASE social report, which proposes a standardized methodology for social reporting and allows us to compare companies in different sectors over time. *Oderlene Vieira de Oliveira, Marcelle Colares Oliveira, Sérgio Henrique Arruda Cavalcante Forte, Vera Maria Rodrigues Ponte* try to identify the perceptions of executives from Brazilian companies traded and closed on obstacles for the adherence to good corporate governance practices.

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!

CORPORATE OWNERSHIP & CONTROL

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Baliira Kalyebara, Abdullahi D. Ahmed

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Cristina Bettinelli, Valeria Caviezel

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Giuseppe Grossi, Patricia Bachiller

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W L Crafford, F J Mostert, J H Mostert

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An empirical survey followed thereafter, focusing on the 10 biggest banks in South Africa. They are the leaders of the South African banking industry, and as South Africa is a developing country with an emerging market economy, the conclusions of the study may also be valuable to banking industries of similar countries. The importance of the liquidity management factors, the problem areas surrounding this topic, as well as how often the requirements are adjusted to ensure proper and effective liquidity management are addressed.

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Mo'taz Amin Al-Sa'eed, Soud M. Al-Mahamid

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Qian Li, Ebru Reis

In this paper, we study changes in the incentive structure of the CEOs in both parent and spun-off companies, and the effect of managerial incentives on operating performance due to an improved agency relationship between shareholders and managers of both firms after the spinoff. We construct a

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J. Barry Lin, Bingsheng Yi, Jane Mooney

This paper applies several methodologies to examine the interplay among large shareholders. We find that firm performance is positively associated with insider and institutional ownership, but negatively associated with blockholder ownership. More importantly, we find that insider and institutional ownership are negatively related to each other, functioning as substitutes. However, they are both positively related to blockholder ownership, indicating that the endogenous optimal ownership requires higher insider and/or institutional ownership when there is high blockholder ownership. Methodologically, we find that using residual ownership reduces or eliminates spurious variations in the non-linear relationship between firm performance and insider ownership, and industry adjustment generates more reliable estimates. This paper sheds light on the complex interplay among these various types of large investors.

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Haiyan Jiang, Ahsan Habib

This study seeks to empirically examine the effect of ownership concentration on mitigating free cash flow agency problem in New Zealand. Following Jensen's (1986) argument that managers have incentives to misuse free cash flows, this study tests whether concentrated ownership structure helps alleviate such a problem or exacerbates it. A natural consequence of this agency problem will be overinvestment and other operational inefficiencies which are likely to have a detrimental impact on firms' future performance. The second objective of this paper is to examine the association between FCFAP conditional on ownership concentration on future firm performance. We measure free cash flow agency problem as the product of positive free cash flows and growth opportunities proxied by Tobin's Q and find that financial institution-controlled ownership structure in New Zealand is positively associated with free cash flow agency problem. We also document that free cash flow agency problem conditional on ownership concentration negatively affects future firm performance.

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Shihwei Wu, Fengyi Lin, Chiaming Wu

This study develops several models to examine the relationship between the corporate social responsibility (CSR) and the ownership structure of Taiwanese firms. Our results suggest that firms which are controlled by professional managers, government-owned, or collectively-owned would like to undertake serious efforts to integrate the CSR into various aspects of their companies. Due to Asia firm's culture, family firms might be more reluctant to put efforts on CSR activities. We also report that there is a positive relationship between (a) the CSR and financial performance and (b) the CSR and earnings quality. This study suggests that the ownership structures are found to have effects on the CSR and the CSR could also decrease the information asymmetry between managers and investors.

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Rami Zeitun, Duha Al-kawari

This study investigates the effect of government ownership structure, business risk and financial leverage among other variables (size, age and growth) on a company's performance in a panel data, using 191 companies from five GCC countries (Qatar, Saudi Arabia, Oman, Bahrain and Kuwait), during the period 1999- 2006. Our results indicate that government ownership affects the performance and value of GCC firms. Government ownership positively and significantly affects firm's performance ROA. The insignificance of a firm's leverage (LEV) indicates that the firm's performance is irrelevant to its capital structure, and that supports Modigliani and Miller (M&M) (1958) argument. Our finding is that business risk (BETA) significantly and positively affects firm's performance ROE and supports the classic risk trade-off arguments. Furthermore, age was found to have a positive and significant impact on firm's performance ROA and ROE.

SECTION 3. NATIONAL PRACTICES IN CORPORATE GOVERNANCE: BRAZIL

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Thiago Emmanuel, Andre Carvalhal, Marcos Avila

This paper analyses the relationship between social responsibility and financial performance of Brazilian companies. This subject has been largely studied and presents many discussions and different points of view. There are a considerably number of research that tries to link social responsibility and financial performance. However, there is not a fully established consensus about the issue. Despite a great number of empirical researches regarding this subject, there are few studies in the Brazilian market. We analyze 515 Brazilian companies listed on BM&FBovespa from 2001 to 2007 and check which companies have disclosed the IBASE social report, which proposes a standardized methodology for social reporting and allows us to compare companies in different sectors over time. Our results indicate that companies that disclose social information have a superior performance when compared with companies that do not disclose. Moreover, financial performance is positively related with social investments. Interestingly, the "voluntary" social investments, which are not mandatory by law, have a strong effect on firm value and performance.

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Oderlene Vieira de Oliveira, Marcelle Colares Oliveira, Sérgio Henrique Arruda Cavalcante Forte, Vera Maria Rodrigues Ponte

This study aims to identify the perceptions of executives from Brazilian companies traded and closed on obstacles for the adherence to good corporate governance practices. Therefore, a structured questionnaire was sent to 516 companies. We concluded that the perceptions of executives from Brazilian companies traded and closed, differ with respect to amounts allocated, being most of the obstacles (ten out of thirteen) in adhering to good corporate governance practices. What could possibly be explained, is that the fact of a group having already gone through the process or have already duly joined this practice and not the other.

SUBSCRIPTION DETAILS

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