

**CORPORATE
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**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 corporate ownership and control and board practices. Company performance, managerial compensation, corporate social responsibility, national peculiarities of corporate governance in Malaysia are also under the scope of researches. More detailed issues are given below.

Andre Carvalhal, Mariana Sampaio and Vicente Ferreira state that there are a few studies about executive remuneration in the Brazilian market, and most of them are qualitative. Their research is original in Brazil, bringing a great contribution to the literature of corporate governance. Their results indicate that companies with bad governance tend to pay greater remuneration to their executives. *T. Diana L. van Aduard de Macedo-Soares, Barbara Braga Lyra da Silva* present the results of research that sought to assess the adequateness of the strategy of L'Oréal Latin America, considering the opportunities and threats of the cosmetics industry, of the firm's alliances and given the global competitive strategy of the L'Oréal Group. *Ling-Ling Chang, Fujen Daniel Hsiao* in their study show that decisions to purchase directors & officers liability insurance (D&O insurance) may influence the decision making process of BOD and high-level management, and it may even impact the likelihood of management turnover. *Yongqiang Li, Abdi Hassan, Esse Abdirashid, Bruno Zeller, Miaoli Du* empirically examine the impact of investor protection on financial performance of Islamic banks based on an unbalanced panel data collected from 91 Islamic banks and financial institutions worldwide across 1991-2010. Econometric techniques are adopted to specify the models. *Mehdi Alinezhad Sarokolaei, Fatemeh Afshar Zeidabadi, Akbar Rahimipoor, Sanaz Salehi Abarghoee* will try to propose their new criterion entitled: "Fuzzy corporate governance criterion" and its fundamental concepts based on fuzzy logical theory. Transparency and disclosure, ownership structure, board of directors' structure and owners' equity are among key variables in corporate governance which have been unified in fuzzy model in their research to gain an acceptable criterion for assessing corporate governance. *Federico Rotondo* empirically examines the degree of maturity of corporate governance of Italian airport companies, after about twenty years from the beginning of the reform aimed at the privatization of the industry. Two indexes have been developed to capture two corporate governance features such as decision-making power concentration and alignment to best practices.

Hsiang-tsai Chiang, Li-jen He, Chih-Hung Lai try to explore the supervising effect of active and passive institutional investors on company's earnings management in Taiwan, and whether the supervising effect differs between family and non family-controlled companies or not. *Julián Benavides Franco, Samuel Mongrut Montalván, Mónica González Velasco* in their paper study the relationship between ownership concentration, family ownership, management, and market and accounting performance for 59 industrial firms listed in the Lima Stock Exchange during the period of 1999 to 2005.

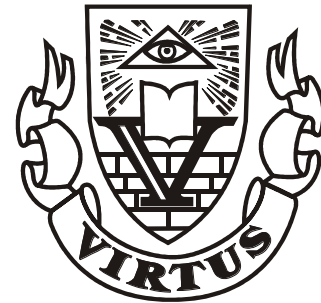
Mohammad Talha, Abdullah Sallehuddin, Md Shukor Masoud, Al-Mansor Abu Said examine the impact of Theory of Planned Behavior components – attitude, subjective norms and perceived control behavior on perceived socially responsible investment (SRI) behavior among fund managers of unit trust fund companies with intention to engage in SRI as a mediating variable. *Yap Voon Choong, Chan KokThim, John Stanley Murugesu* study the effect of firm-level corporate governance variables on foreign equity ownership (FEO) in Malaysia. Based on a sample of listed firms on Bursa Malaysia and employing multiple regression analysis, their study finds that a number of corporate governance mechanisms significantly improve the ability of companies to attract foreign equity ownership.

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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Andre Carvalho, Mariana Sampaio, Vicente Ferreira

Executive remuneration has gained importance both in the academic and corporate fields, especially with the outcome of the scandals involving executives from large North-American corporations in the 2000's. In the international literature, there are many studies about executive remuneration and how it relates to agency theory and corporate governance. However, there are a few studies about executive remuneration in the Brazilian market, and most of them are qualitative. One of the great problems of research in this area is the difficulty in obtaining data about executive remuneration in Brazil. These data, when available, are very aggregated and not very clear. The objective of this paper is to analyze the determinants of executive remuneration in Brazil, and the relation between executive remuneration and corporate governance. This research is original in Brazil, bringing a great contribution to the literature of corporate governance. Our results indicate that companies with bad governance tend to pay greater remuneration to their executives. Moreover, companies paying greater remuneration perform worse in the future. In other words, paying more to executives does not result in better profitability in the future.

ASSESSING THE STRATEGY OF FIRMS THAT COMPETE GLOBALLY IN ALLIANCES IN THE COSMETICS INDUSTRY: THE CASE OF L'ORÉAL IN LATIN AMERICA

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T. Diana L. van Aduard de Macedo-Soares, Barbara Braga Lyra da Silva

The cosmetics industry, especially in Latin America, was hardly affected by the recent global recession. As consumer goods that do not require significant investments and offer well-being to their users, cosmetics tend to remain on consumers' shopping lists, even during recessions. However, the increasingly competitive global scenario drives firms to sustain their efficiency by way of strategic alliances, so as to better meet their customers' requirements. Even leading multinationals, such as L'Oréal, face challenges to maintain their competitiveness and have to reassess regularly their strategies. This article presents the results of research that sought to assess the adequateness of the strategy of L'Oréal Latin America, considering the opportunities and threats of the cosmetics industry, of the firm's alliances and given the global competitive strategy of the L'Oréal Group. The results confirmed what had been verified in other sectors: global alliances create more opportunities than threats, and, in many cases, global relational opportunities, i.e. pertinent to global alliances, mitigate global non-relational threats. Latin America is a potential market for the strategic objective of L'Oréal to conquer one billion consumers and its transnational strategy ensures coherence of its products launched in this geographic region with its targeted consumer requirements. Its strategic alliances contribute to responding better to market demands and ensure a better exposure of the products launched. The study thus adds value to research on strategic management from a global relational perspective, by complementing findings of similar investigations into other sectors. From a business

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Ling-Ling Chang, Fujen Daniel Hsiao

Accounting scandals in recent years have exposed that a high risk in business operations and caught the public attention. Thus, the Taiwanese government has strengthened the necessary regulations to protect shareholders' rights, emphasizing breach of trust by managers and irresponsibility by board of directors (BOD). Situations such as class action lawsuits filed by investors against firms for deficiency in disclosures revealed that firms could purchase directors & officers liability insurance (D&O insurance) to reduce and diversify the potential risks that result in severe harms by management and board decisions. Our study also shows that decisions to purchase D&O insurance may influence the decision making process of BOD and high-level management, and it may even impact the likelihood of management turnover.

The purpose of the study is to examine the main determinants that would influence the firm's decision on whether to purchase D&O insurance. From empirical evidence, we find the purchase of D&O insurance is more likely when firms are greater in BOD independence, higher BOD average compensation, with greater high level management turnover, larger in size, and in the electronics industry. On the other hand, firms are less likely to purchase D&O insurance when there are higher frequencies in change of external auditors, greater deviation of ultimate controlling shareholders cash flow rights and equity control rights, and when firms are with greater in BOD directors serving as firm managers. However, no relationship is found for firms' D&O insurance purchase relates to information disclosure transparency, and duality of CEO and BOD chairman.

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Yongqiang Li, Abdi Hassan, Esse Abdirashid, Bruno Zeller, Miaoli Du

The last decade witnessed dramatic growth of the Islamic banking and finance sector, which had largely been credited to its adoption of the profit and loss sharing principles. However, in practice, the Islamic banks mostly rely on debt-like financing methods such as mark-up and leasing finance instead. Consequently, the investors are exposed to default risks. This study empirically examines the impact of investor protection on financial performance of Islamic banks based on an unbalanced panel data collected from 91 Islamic banks and financial institutions worldwide across 1991-2010. Econometric techniques are adopted to specify the models. Results show that stronger investor protection results in better financial performance in the Islamic banking and financial institutions. The paper concludes with acknowledging the limitations and discussion of future research directions.

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Mehdi Alinezhad Sarokolaei, Fatemeh Afshar Zeidabadi, Akbar Rahimipoor, Sanaz Salehi Abarghoee

Corporate governance has changed into a very crucial investment decision making element for investors. The amount of investors' investment increases as much as the observing of corporate governance principles increase. Thus, companies' ranking regarding corporate governance can present valuable information for users. Corporate governance criterion is a criterion through which the amount of observing the principles of corporate governance by the companies is shown. The existence of this criterion besides company rankings can be effective for investors, auditors and the public to judge about these companies. So in this paper we will try to propose our new criterion entitled: "Fuzzy corporate governance criterion" and its fundamental concepts based on fuzzy logical theory. The methodology based on fuzzy logical theory has improved and developed inexact and vague estimates of traditional assessment methods. This methodology has presented a new type of corporate governance (CG) criterion called Fuzzy corporate governance (FCG). Transparency and disclosure, ownership

structure, board of directors' structure and owners' equity are among key variables in corporate governance which have been unified in fuzzy model in this research to gain an acceptable criterion for assessing corporate governance.

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Federico Rotondo

This paper empirically examines the degree of maturity of corporate governance of Italian airport companies, after about twenty years from the beginning of the reform aimed at the privatization of the industry. Two corporate governance issues are investigated: i) the development of different corporate governance models by different categories of airports; ii) the relationship between corporate governance models and the technical and financial performance of Italian airport companies. For this reason two indexes have been developed to capture two corporate governance features such as decision-making power concentration and alignment to best practices. Then the correlation of corporate governance indexes with the efficiency, measured by using data envelopment analysis (DEA) methodology, is tested on a significant sample of Italian airports.

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Hsiang-tsai Chiang, Li-jen He, Chih-Hung Lai

The characteristics of institutional investors are that they hold massive funds and possess investment expertise; therefore, these investors are expected to have an influence on corporate governance. This study explores the supervising effect of active and passive institutional investors on company's earnings management in Taiwan, and whether the supervising effect differs between family and non family-controlled companies or not.

The empirical results show that institutional investors are significantly related to earnings management in both family and non family-controlled companies. Moreover, active investors have more impact on earnings management than passive ones in family-controlled companies. Institutional investors, especially active investors, have been shown to have significant governance effect; therefore, companies are encouraged to attract institutional investors to enhance corporate governance.

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Julián Benavides Franco, Samuel Mongrut Montalbán, Mónica González Velasco

This paper studies the relationship between ownership concentration, family ownership, management, and market and accounting performance for 59 industrial firms listed in the Lima Stock Exchange during the period of 1999 to 2005. An inverted U-shaped relationship was found between ownership concentration and market performance in both family and non family firms, pointing out an entrenchment effect or excessive risk aversion of the controlling group. This effect is worsened for family firms. The presence of family members as CEOs, Chairmen and Board Members is also negative for a firm's performance and family ownership was found to increase the leverage of a firm.

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Mohammad Talha, Abdullah Sallehuddin, Md Shukor Masoud, Al-Mansor Abu Said

This study aims to examine the impact of Theory of Planned Behavior components – attitude, subjective norms and perceived control behavior on perceived socially responsible investment (SRI) behavior among fund managers of unit trust fund companies with intention to engage in SRI as a mediating variable. This cross sectional study employs questionnaire to collect the opinion from respondents. Three hundred and twenty questionnaires have been distributed but only 84 have been returned by the fund managers, with a response rate of 26.25 per cent. A scan of such questionnaires further revealed that only 73 could be taken up for analysis. Thus, the usable rate is 22.81 percent. Structural Equation Modeling (SEM) that has been used in the study has revealed that the model has a good fit for the model (above minimum requirements for goodness of fit criteria) which indicates the appropriateness of instrument and measurement. The analysis shows that subjective norms have significant and positive direct effect on perceived SRI behavior. In addition, subjective norms also have a significant and positive indirect effect on perceived SRI behavior through intention to engage in SRI. Attitude has a positive and significant direct impact on intention, while it does not have a significant direct effect on perceived SRI behavior. Besides, the study has evidenced significant direct effect of intention on perceived SRI behavior. However, the study has not found any evidence to support the association of perceived control behavior with intention and perceived SRI behavior. The major limitation of this existing study is a lower response rate; nevertheless it provides good understanding on the interaction of attitude, subjective norms, perceived control behavior, intention and behavior in the context of socially responsible investment in emerging economies like Malaysia.

DOES BETTER CORPORATE GOVERNANCE ATTRACT FOREIGN EQUITY OWNERSHIP? EVIDENCE FROM MALAYSIAN LISTED COMPANIES **118**

Yap Voon Choong, Chan KokThim, John Stanley Murugesu

This study examines the effect of firm-level corporate governance variables on foreign equity ownership (FEO) in Malaysia. Foreign equity ownership can be an important source of capital for companies to fund their expansion and growth. To attract FEO, good corporate governance practices are vital because these practices are used to reduce or mitigate agency cost. Based on a sample of listed firms on Bursa Malaysia and employing multiple regression analysis, the study finds that a number of corporate governance mechanisms significantly improve the ability of companies to attract foreign equity ownership, especially, Insider Ownership, Government Ownership, Firm Size, Dividend Yield and Tobin's Q. The results of the study indicate that firm-level efforts for better corporate governance sends positive signals and confidence to foreign investors.

SUBSCRIPTION DETAILS

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