

**CORPORATE
OWNERSHIP & CONTROL**

**КОРПОРАТИВНАЯ
СОБСТВЕННОСТЬ И КОНТРОЛЬ**

Editorial Address:

Assistant Professor Alexander N. Kostyuk
Department of Management & Foreign Economic
Activity
Ukrainian Academy of Banking of National Bank of
Ukraine
Petropavlovskaya Str. 57
Sumy 40030
Ukraine

Tel: +38-542-288365
Fax: +38-542-288365
e-mail: alex_kostyuk@mail.ru
alex_kostyuk@virtusinterpress.org

www.virtusinterpress.org

Journal Corporate Ownership & Control is published four times a year, in September-November, December-February, March-May and June-August, by Publishing House "Virtus Interpress", Kirova Str. 146/1, office 20, Sumy, 40021, Ukraine.

Information for subscribers: New orders requests should be addressed to the Editor by e-mail. See the section "Subscription details".

Back issues: Single issues are available from the Editor. Details, including prices, are available upon request.

Advertising: For details, please, contact the Editor of the journal.

Copyright: All rights reserved. No part of this publication may be reproduced, stored or transmitted in any form or by any means without the prior permission in writing of the Publisher.

Corporate Ownership & Control

ISSN 1727-9232 (printed version)
1810-0368 (CD version)
1810-3057 (online version)

Certificate № 7881

Virtus Interpress. All rights reserved.

Адрес редакции:

Александр Николаевич Костюк
доцент кафедры управления и
внешнеэкономической деятельности
Украинская академия банковского дела
Национального банка Украины
ул. Петропавловская 57
г. Сумы
40030 Украина

Тел.: 38-542-288365
Факс: 38-542-288365
эл. почта: alex_kostyuk@mail.ru
alex_kostyuk@virtusinterpress.org

www.virtusinterpress.org

Журнал "Корпоративная собственность и контроль" издается четыре раза в год в сентябре-ноябре, декабре-феврале, марте-мае, июне-августе издательским домом Виртус Интерпресс, ул. Кирова 146/1, г. Сумы, 40021, Украина.

Информация для подписчиков: заказ на подписку следует адресовать Редактору журнала по электронной почте.

Отдельные номера: заказ на приобретение отдельных номеров следует направлять Редактору журнала.

Размещение рекламы: за информацией обращайтесь к Редактору.

Права на копирование и распространение: копирование, хранение и распространение материалов журнала в любой форме возможно лишь с письменного разрешения Издательства.

Корпоративная собственность и контроль

ISSN 1727-9232 (печатная версия)
1810-0368 (версия на компакт-диске)
1810-3057 (электронная версия)

Свидетельство КВ 7881 от 11.09.2003 г.

Виртус Интерпресс. Права защищены.

РЕДАКЦИОННЫЙ СОВЕТ

Александр Костюк, к.э.н., Украинская академия банковского дела (Украина) -

Главный редактор;

Сэр Джордж Бэйли, д.э.н., проф., президент и проректор Королевского университета (Великобритания) - почетный член Редакционного совета;

Сэр Джеффри Оуэн, д.э.н., проф., Лондонская школа экономики (Великобритания) - почетный член Редакционного совета;

Майкл Дженсен, д.э.н., проф., Гарвардская школа бизнеса (США) - почетный член Редакционного совета;

Стефан Дэвис, д.э.н., президент компании Davis Global Advisors, Inc. (USA); *Брайен Чейфинс*, д.э.н., проф., Кембриджский университет (Великобритания); *Бернард Блэк*, д.э.н., проф., Стэнфордский университет (США); *Симон Дикин*, д.э.н., проф., зав. кафедрой корпоративного управления, школа бизнеса, Кембриджский университет (Великобритания); *Дэвид Ермак*, д.э.н., проф., университет Нью-Йорка (США); *Понгджи Ким*, д.э.н., заместитель декана школы международных отношений, университет Йонсей (Южная Корея); *Джеффри Неттер*, д.э.н., проф., кафедра банковского дела и финансов, колледж бизнеса Терри, университет Джорджии (США); *Ян Рамси*, д.э.н., проф., Мельбурнский университет (Австралия); *Джонатан Бэйтс*, директор компании Institutional Design (Великобритания); *Лиу Джунхай*, д.э.н., проф., заместитель директора Института права Китайской академии наук (Китай); *Джонатан Мейси*, д.э.н., проф., директор учебных программ по праву и экономике школы права Корнельского университета (США); *Роберт МакГи*, д.э.н., проф., проректор школы бизнеса, университет Барри (США); *Фианна Есовер*, ОСЭР, департамент корпоративного управления (Франция); *Александр Лок*, д.э.н., проф., Национальный университет Сингапура (Сингапур); *Анил Шивдасани*, д.э.н., проф., школа бизнеса Кенан-Флагер, университет Северной Каролины (США); *Радо Бохинк*, д.э.н., проф., Люблянский университет (Словения); *Гарри Бродман*, д.э.н., главный экономист Мирового банка в Европе и Центральной Азии (США); *Родольфо Анреда*, д.э.н., проф., университет Десема (Аргентина); *Андреа Мелис*, д.э.н., проф., университет Кальяри (Италия); *Хаген Линдштадт*, ректор школы менеджмента, университет Карлсруе (Германия); *Хулио Пиндадо*, д.э.н., проф., университет Саламанка (Испания); *Петр Тамович*, д.э.н., проф., Гданьский институт исследований рынка (Польша); *Гюсер Гадхум*, д.э.н., проф., университет Квебека (Канада); *Виктор Мендес*, д.э.н., кафедра экономики университета Порту (Португалия); *Александр Краковский*, управляющий компанией Ukraine Investment Advisors, Inc. (США); *Петр Михали*, д.э.н., проф., кафедра экономики, Центрально-Европейский университет (Венгрия); *Вольфганг Дробец*, д.э.н., проф., Базельский университет (Швейцария); *Джен Чен*, д.э.н., проф., директор Центра корпоративного управления в развивающихся странах, университет Сюррей (Великобритания); *Клаус Гуглер*, д.э.н., проф., кафедра экономики, Венский университет (Австрия); *Аждар Карамиде*, д.э.н., проф., университет Уэльса (Великобритания); *Карстен Спренгер*, кафедра экономики и бизнеса, университет Помпеу Фабра (Испания); *Тор Эрикссон*, д.э.н., проф., бизнес-школа Аархус (Дания); *Норвальд Инстедьорд*, д.э.н., проф., колледж Биркбек, Лондонский университет (Великобритания); *Джон Ирль*, д.э.н., проф., директор Института исследования занятости (США); *Том Кирхмайер*, д.э.н., проф., Лондонская школа экономики (Великобритания); *Теодор Баумс*, д.э.н., проф., Франкфуртский университет (Германия); *Джулия Элстон*, д.э.н., проф., университет Центральной Флориды (США); *Демир Енер*, д.э.н., проф., USAID (Босния и Герцеговина); *Мартин Конйон*, д.э.н., проф., Варгонская школа бизнеса (США); *Джэф Сталдон*, д.э.н., проф., Мельбурнский университет (Австралия); *Евгений Расторгуев*, Исполняющий менеджер, издательский дом «Виртус Интерпресс» (Украина).

Dear Readers!

The recent issue of the journal „Corporate Ownership and Control“ is devoted to some key topics. We constructed this issue of the journal around the fundamental analysis of corporate governance systems in Asia, Africa and Australia.

We introduced a new market to explore corporate governance - Africa. Corporate governance has received much attention especially among very large firms in developed markets. As proved by Anthony Kyereboah-Coleman, Charles K.D. Adjasi, and Joshua Abor developing countries are now increasingly embracing the concept of good corporate governance, knowing it leads to sustainable growth and Ghana is no exception.

So it is generally accepted that the concept “corporate governance“ discussed by Anthony Kyereboah-Coleman, Nicholas Biekpe is gradually warming itself as a priority in the African continent.

The paper by Greg Tower and Dulacha G Barako provides an empirical analysis of banks performance in Kenya.

Besides that we tried to do our utmost to develop the academic investigations and concepts through publishing papers titled as “Ownership Structure and Operating Performance Changes surrounding Stock Option Adoptions: Evidence from Japan” by Konari Uchida and Mamoru Matsumoto, “Impact of Board Size and Board Diversity on Firm Value: Australian Evidence” by Hoa Nguyen, Robert Faff and “Board Composition, Audit Committee and Timeliness of Corporate Financial Reports in Malaysia“ by Shamsul-Nahar Abdullah.

The paper by Ying-Fen Lin divides companies into non-family businesses and family businesses and investigates the influence of outside directors, outside blockholders, and excess compensation in CEOs termination process.

In turn Cláudio Antonio Pinheiro Machado Filho, Adalberto Fischmann, Luciana Rocha de Mendonça, Sandra Guerra open essentials of the mechanisms of governance in nonprofit organizations.

In another study Li-Anne Elizabeth Woo researches critically the law matters thesis, also critiques the law matters thesis from a perspective largely beyond the mainstream law journals and yields perspectives often overlooked in the law literature.

Tzong-Huei Lin describes the IPO underpricing and corporate governance in Taiwan. The results generally suggest that the corporate governance reform of Taiwan offers an opportunity to investigate the effect of corporate governance on IPOs market.

The study by Alma Whiteley attempts to investigate trust and the employee perspective. It is meant to introduce trust as related to organizational design and management within the broader domain of governance and report on case study research on trust carried out in a large Australian organization.

The next studies by Saw-Imm Song, Ruhani Ali, Subramaniam Pillay, and Douglas Nanka-Bruce described family ownership, premiums paid and performance (evidence from corporate take-overs in Malaysia) and corporate ownership and technical efficiency analysis in the Spanish real estate sector.

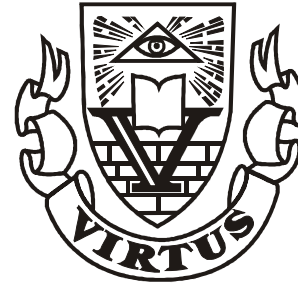
We hope that our practitioner’s corner with the paper „The premium paid for M&A: the Nasdaq case“ by Mpasinas Antonios will be read by you with interest.

We would like to remind that all our efforts are directed to develop corporate governance through intensive research and in this way your contribution is welcome by us!

CORPORATE OWNERSHIP & CONTROL

Volume 4, Issue 2, Winter 2006-2007

CONTENTS



Editorial 5

SECTION 1. ACADEMIC INVESTIGATIONS AND CONCEPTS

Ownership Structure and Operating Performance Changes surrounding Stock Option Adoptions: Evidence from Japan 10

Konari Uchida, Mamoru Matsumoto

Stock option adoptions by IPO firms account for about one-third of Japanese stock option adoptions during 1997-2000. Non-IPO firms that adopt stock options tend to decrease financial institutions' ownership levels less than the average whereas reduce other corporations' ownership levels more than the average. The result suggests firms that care more about shareholder wealth decrease cross-shareholdings as well as issue stock options. However, such firms need to keep shareholdings by financial institutions to prevent increases in agency costs of debt. Finally, we do not find a significant change in firms' operating performance surrounding stock option adoptions.

Impact of Board Size and Board Diversity on Firm Value: Australian Evidence 24

Hoa Nguyen, Robert Faff

The aim of this paper is to provide a preliminary analysis of the relationship between firm market value and the size and gender diversity of a board of directors for a sample of publicly listed Australian firms. Our results show that smaller boards appear to be more effective in representing the shareholders as smaller boards are associated with higher firm value. As board size increases firm value declines, however at a decreasing rate suggesting that the relationship between board size and firm value is not strictly linear. Our findings further indicate that gender diversity promotes shareholders' value as the presence of women directors is associated with higher firm value.

Board Composition, Audit Committee and Timeliness of Corporate Financial Reports in Malaysia 33

Shamsul-Nahar Abdullah

This study attempts to investigate the roles of the composition of board of directors, audit committee and the separation of the roles of the board chairman and the chief executive officer on the timeliness of reporting. The issue of reporting timeliness is important in corporate governance because it is associated with corporate transparency. It is also an important indicator of the value of the information in the financial reports. Given the fact that the board is the highest internal corporate governance system, it is predicted that the characteristics of the board and its sub-committee, namely the audit committee, are associated with the timeliness of reporting. Using Bursa Malaysia (formerly known as the Kuala Lumpur Stock Exchange) Main Board companies data in respect of the financial years 1998 and 2000, the findings show that board independence and the separation of the roles of

board chairman and CEO significantly are associated with timelier reporting. The results also indicate that the 1997 financial crisis had adversely affected the timeliness of reporting. These findings imply that during difficult periods, companies tend to take a longer time to prepare their audited financial reports. Finally, the negative relation between firm's profitability and timeliness of reporting is supportive of information signaling theory.

Corporate Governance, Excess Compensation, and CEO Turnover in Family and Non-Family Businesses 46

Ying-Fen Lin

The replacement of a CEO is one of the control mechanisms that companies employ to reduce the agency problems. This paper divides companies into non-family businesses and family businesses and investigates the influence of outside directors, outside blockholders, and excess compensation in CEOs termination process. The samples used in the paper come from manufacturing companies in Taiwan listed between 1996-1997; the analytical method is logistic regression model. The conclusion is as follows: 1. the characteristics of family businesses, corporate governance, and excess compensation have no correlation on CEO turnover. 2. External board members play an important role in CEO termination in non-family businesses.

Recipients of Governance: Trust and the Employee Perspective 53

Alma Whiteley

Purpose - To introduce trust as related to organizational design and management within the broader domain of governance and report on case study research on trust carried out in a large Australian organization. Design/methodology/approach - This paper is in three parts. The first part reviews a selection of ideas and recent writers on trust; the second part describes the methodology of the case study research which focused on relationship management where trust emerged as an important element of relationships. This is followed by examples from the findings. The third part addresses insights and future research. Originality/Value - The study of trust has become an important topic for management and corporate governance during recent years. After discussing scholarly interpretations of trust, empirical research findings are used to provide insight into how employees actually understand and interpret trust.

Underpricing and Corporate Governance - Evidence from Taiwan Securities Market 69

Tzong-Huei Lin

To enhance the corporate governance of listed firms, Taiwan prescribes that the initial public offerings (IPOs) after February 19, 2002, have to set up at least two independent directors and one independent supervisor who possesses financial or accounting expertise. Using data from Taiwan's initial public offerings (IPOs), this study documents evidence that the magnitudes of under-pricings of IPOs after 2002 are significantly smaller than those of before. The empirical evidence also indicates that the percentage of shares holdings owned by directors/supervisors is demonstrated to have negative relationship with the underpricing of the IPOs. This study contributes to the literature in the following ways. First, as Ritter and Welch (2002) suggest that future progress in the IPO underpricing literature will mainly come from agency conflict explanation, this study provides evidence about the effect of corporate governance on IPOs market. Second, as for the issue about the policy implication of the SFB 2002' rules, this study provides the empirical evidence. Third, whether the government should prescribe the firms to set up independent directors? This study offers a direction for future discussion.

The Fiscal Piece of Advice as Instrument of Protection and Generation of Value to the Minority Shareholders. an Vision of Corporate Governance 74

Sergio Antonio Loureiro Escuder, Joao Eduardo Prudencio Tinoco

The present article inserted in the extent of the corporate governance has as objective contributes in the evaluation of the importance of the fiscal piece of advice in the structure of the organizations,

with lucrative purposes, as control instrument and support to the shareholders' Assembly, to the light of the legislation of the limited companies and of the reduction entities, class organs, like IBGC, CVM, IBRACON and BOVESPA. It was observed, on the other hand, that the family company is preponderant in Brazil, and that that central aspect limits the performance of the fiscal piece of advice in the context of the corporate governance.

The Mechanisms of Governance in Nonprofit Organizations **83**

Cláudio Antonio Pinheiro Machado Filho, Adalberto Fischmann, Luciana Rocha de Mendonça, Sandra Guerra

This paper discusses the governance issues in nonprofit organizations (NPO). The theoretical framework of agency theory is used to analyze the relationship between agents and principals (donors and volunteers) in such kinds of organizations. Similarly to the for-profit organizations, the mechanisms of incentives and monitoring are crucial to the alignment of interests among principals and agents. However, considering the NPO's intrinsic characteristics, due to the difficulty to implement external and internal governance mechanisms, the challenges of alignment are far more complicated. The NPOs are idiosyncratic, being in many situations complex to establish performance comparisons with similar organizations.

SECTION 2. CORPORATE OWNERSHIP

Family ownership, Premiums Paid and Performance: Evidence from Corporate Take-overs in Malaysia **89**

Saw-Imm Song, Ruhani Ali, Subramaniam Pillay

This study examines the relationship between ownership identity of the largest shareholders, premiums paid and take-over performance, with reference to 63 large acquisitions by Malaysian public listed firms from 1990 to 1999. It is found that the premiums paid are much higher than those in developed countries. It has a curvilinear relationship with take-over performance. At lower to moderate levels of premiums, it improves post-take-over performance while excessive premium drags down the performance of the bidding firms. The finding shows that there is an interaction effect between family ownership and premiums paid which has contributed positively to the post-take-over performance. The evidence suggests that family ownership mitigates agency problem in corporate take-overs.

Corporate Ownership and Technical Efficiency Analysis in the Spanish Real Estate Sector **100**

Douglas Nanka-Bruce

The real estate sector keeps contributing significantly to the Spanish economy. A recent news article reports the existence of inefficiencies in the nature and delivery of new properties. We investigate the technical efficiency of this sector using a non-parametric "reasonable" benchmarking frontier, acknowledging the marked influence of the sector's shadow economy. We then relate the results applying a panel data analysis to the shareholding concentration and identity of firm ownership. We find no systematic support for the effect of corporate ownership on technical efficiency.

SECTION 3. NATIONAL PRACTICES OF CORPORATE GOVERNANCE: AFRICA

The Relationship Between Board Size, Board Composition, CEO Duality and Firm Performance: Experience From Ghana **114**

Anthony Kyereboah-Coleman, Nicholas Biekpe

The paper examined board characteristics and its impact on the performance of non-financial listed firms in Ghana. Data covering 11 year period (1990-2001) was used and analysis conducted within the panel data framework. The study shows that most Ghanaian firms adopt the two-tier board structure and are largely non-independent. The regression results, though relatively mixed, confirm

other studies and show that there should be a clear separation of the two critical positions of CEO and board chairman in order to reduce agency cost for enhanced firm performance.

Corporate Governance and Firm Performance: Evidence from Ghanaian Listed Companies

123

Anthony Kyereboah-Coleman, Charles K.D. Adjasi, Joshua Abor

Well governed firms have been noted to have higher firm performance. The main characteristic of corporate governance identified include board size, board composition, and whether the CEO is also the board chairman. This study examines the role corporate governance structures play in firm performance amongst listed firms on the Ghana Stock Exchange. Results reveal a likely optimal board size range where mean ROA levels associated with board size 8 to 11 are higher than overall mean ROA for the sample. Significantly, firm performance is found to be better in firms with the two-tier board structure. Results show further that having more outside board members is positively related to firm performance. It is clear that corporate governance structures influence firm performance in Ghana, indeed within the governance structures the two-tier board structure in Ghana is seen to be more effective in view of the higher firm level mean values obtained compared to the one-tier system.

Corporate Governance and Bank Performance: Does Ownership Matter? Evidence from the Kenyan Banking Sector

133

Dulacha G. Barako, Greg Tower

This paper provides an empirical analysis of banks performance in Kenya. The primary purpose of this study is to investigate the association between ownership structure characteristics and bank performance. Data utilised in the study is collected from the Financial Institutions Department of the Central Bank of Kenya, both on-site inspection reports and off-site surveillance records. Empirical results indicate that ownership structure of banks significantly influence their financial performance. In particular, board and government ownership are significantly and negatively associated with bank performance, whereas foreign ownership is strongly positively associated with bank performance, and institutional shareholders have no impact on the performance of financial institutions in Kenya. The results are consistent with prior research findings, and more importantly, presents statistical justification for pursuing further corporate governance reforms with respect to banks' ownership structure to enhance the financial stability of the sector.

SECTION 4. PRACTITIONER'S CORNER

The premium paid for M&A: the Nasdaq case

145

Mpasinas Antonios

Our study is focused on the premium paid for an acquisition of a target company, especially on the Nasdaq market. We find that the relative size of the companies, the strategy of international diversification and the mean of payment influence the premium. The is no effect of maket timing on the premuim paid and the ownernish structure of the group of directors don't seems to be significant.

Instructions to authors/Subscription details

155