

**CORPORATE  
OWNERSHIP & CONTROL**

**КОРПОРАТИВНАЯ  
СОБСТВЕННОСТЬ И КОНТРОЛЬ**

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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.

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*Corporate Ownership & Control*

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

Certificate № 7881

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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.

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*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.*

## EDITORIAL

*Dear readers!*

This issue of the journal *Corporate Ownership and Control* is entirely devoted to the 75<sup>th</sup> anniversary of the essential work *The Modern Corporation and Private Property* by Adolf Berle and Gardiner Means.

Over the past seven decades, experts in corporate and securities law, management consulting and academia have wrestled with reconciling the diverging interests of those who own corporations and those who control them. Corporate and securities laws have approached this problem from one direction: protecting the interests of shareholders from potentially self-serving actions of management. Management experts and economists have approached the issue from a different perspective: aligning the interests of management with shareholders, so that conflicts of interest between managers and shareholders disappear. The corporate scandals of the past few years – Enron, Worldcom, Vivendi, Parmalat and others – have shown that the tension has yet to be resolved.

Adolf Berle and Gardiner Means pointed out 72 years ago, the modern public corporation is characterised by a separation of ownership and control. This fact means that modern public corporations are also subject to a type of agency problem not usually found in other forms of economic organisation. In modern corporations, the managers – who decide how a corporation's capital is spent, how resources are allocated and what endeavours the corporation undertakes – do not themselves own the capital or resources. Those in control of the corporation,

“and therefore in a position to secure industrial efficiency and produce profits, are no longer, as owners, entitled to the bulk of such profits... The explosion of the atom of property destroys the basis of the old assumption that the quest for profits will spur the owner of industrial property to its effective use.”

Berle and Means believed this led to one simple, inescapable conclusion:

“[W]here the bulk of the profits of enterprise are scheduled to go to owners who are individuals other than those in control, the interests of the latter are as likely as not to be at variance with those of ownership and...the controlling group is in a position to serve its own interests.”



In the honor of  
*Adolf Berle and Gardiner  
Means*

This occurred for a number of reasons, foremost being the dispersal of shareholding ownership in big corporations: the typical shareholder is uninterested the day to day affairs of the company, yet thousands of people like him or her make up the majority of owners throughout the economy. Therefore, ownership structure was the main factor contributing to solving or ignoring the separation of ownership and control problem.

What has changed over the last 75 years? Have the owners become more active in protecting their rights? Have they learnt the art of corporate governance enough to prevent managerial opportunism, entrenchment, irrational behaviour? Are shareholders effective now in making managers following the shareholders' interests?

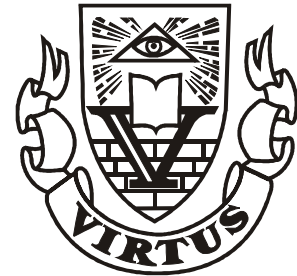
We hope that these questions are answered with a high degree of success by our contributors. Authors of the papers investigated the problem of separation of ownership and control in many countries such as the USA, New Zealand, Portugal, Brazil, Turkey, Korea, Bulgaria, Hungary, Estonia and Europe in a whole including Germany, Italy and France. Both Anglo-Saxon and Continental corporate governance practices have been covered by the authors.

We hope that their papers will be a fruitful soil for revisiting the separation of ownership and control issue once again.

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***J. Vaz Ferreira***

We investigate why firms decline significantly their profitability, efficiency, employment and activity levels, and show an increase on sales and capital investment when there is a transition from private to public ownership. We conclude that this decrease in performance is significantly higher, when one or more than one of the following facts happen after firms going public: first, when there are not shareholders in management, what implies increased agency costs; secondly, when the level of equity concentration after going public is low; in third place, when the level of equity retention by the founding shareholder is low; fourth, when the economy health during the timing of the sale is not in good shape; and lastly, when the old CEO is changed.

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***Rafik Abdesselam, Sylvie Cieply, Anne-Laure Le Nadant***

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***Bersant Hobdari***

New and rich panel data for a large and representative sample of firms are used to estimate the effect of ownership structures on capital allocation. This issue is examined in a production function framework under alternative specifications. Our estimates confirm differences in capital allocation across firm under different ownership structure. Furthermore, we find that: (i) most of Estonian firms operate at the wrong point on their production function (ii) insider owned firms suffer from under-investment, (iii) state and domestic outsider owned firms display over-investment (iv) there is evidence of widespread managerial discretion.

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When approaching the study of how financial systems carry out their role in the control of the good governance of enterprises, many articles of research have centred on the analysis of the ownership structure of these firms. Attempts have been made to see if differences exist, in the nature and degree of concentration of ownership, in the level of pressure and control exercised over the managers and the repercussion of all this on the manner of managing the business. The intention of our research article is to shed light on the development of the structures of ownership and control in Spanish enterprises between 1997 and 2006, and their possible influence on the results of these enterprises.

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***Weiyu Guo, Jinlan Ni***

This paper examines the linkage between dividend policy and institutional ownership within the context of the dividend model of Allen, Bernardo and Welch (2000). Specifically, it provides an empirical test of Allen, Bernardo and Welch (2000)'s novel implication that a tax differential between institutions and retail investors effects dividend policies. Using merge data of US industrial firms from 1980-2002, our results indicate that the dividend paying decision is positively related with institutional ownership. That is, firms with higher institutional ownership are more likely to be dividend payers. Further, we find that the deferred tax or tax credits that the institutional investors own significantly contribute to the dividend initiation decision as well as the level of dividend payments.

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***Alex Proimos***

The once dominant and inconsiderate player in corporate governance, the shareholder, has faced increasing pressure from its rival stakeholders (creditors and the general public) and their agents (i.e. the management and directors) eager to unproportionately increase their stake. The idea of shareholder primacy in corporate governance is while previously was losing its dominance as corporate law versus stakeholder theory could be set for an even stronger come back.