

CORPORATE
OWNERSHIP & CONTROL

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СОБСТВЕННОСТЬ И КОНТРОЛЬ

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EDITORIAL

Dear readers!

This issue of the journal *Corporate Ownership and Control* is devoted to several issues of corporate governance.

Sana Masmoudi Mardessi examines the differences of legal audit of four countries especially Canada, France, Japan and Denmark pertaining to four different judicial systems. In addition, to wonder about the factors which can influence audit quality assurance, particularly, those relating to judicial system of country, growth opportunities and ownership structure. The empirical results show, initially, that specificities of judicial system are positively associated with audit quality assurance appreciated by the size of audit firms. Then, growth opportunities influences partially the size of audit firms. Lastly, ownership structure does not seem to have a significant impact on the search for a high audit quality.

Bradley J. Neill, Mehdi Sadeghi, Edward Watts argue that directors earning statistically significantly abnormal returns from trades within their own companies. Evidence is provided through the analysis of 8,053 transactions by directors on the Australian Stock Exchange during the period of January 2002 to April 2006. Specifically this paper finds directors' sales to be more profitable than purchases, contrary to much of the existing US and UK research. Director sales exhibit a price reversal effect, in that positive abnormal returns are earned prior to the sale and negative returns after it. There is also evidence to support abnormal returns being associated with buy trades, however these returns are generally earned in the periods well after the transaction has taken place. Furthermore, the profits arising from director trades appear to be negatively related to transaction value and firm size; that is, those trades which are small in terms of dollar value, and are within small cap companies, generally generate larger abnormal returns.

Jakkravudhi Chobpichien, Hasnah Haron, Daing Nasir Ibrahim, Bambang Hartadi attempt to delve deeper into this complex phenomenon by employing a resource dependency perspective to hypothesize a model of mediation as board of directors' quality index (BOQI) is moderated by a high concentration of CEO's ownership (HCEO). The findings suggest that the larger firm size, the higher is the BOQI and this in turn will lead to the higher VDI. These relationships appear to be weaker when there is moderation as HCEO, produced by the mediation process of the BOQI, and when this process is controlled, the residual moderation of the treatment effect is reduced. Further, board size as control variable is found to have a positive significant influence on BOQI and VDI.

Janet L. Colbert researches complaints relating to accounting, auditing, or internal control matters may

periodically be received by corporations. Such matters may be submitted by a variety of parties including employees, vendors, customers, or others. Organizations should have in place, as a part of effective corporate governance, procedures for handling complaints. The Board of Directors, specifically the Audit Committee of the Board, should oversee the program, which is encompassed within the broader overall system of internal control. Management plays an important role in a corporate complaint program and both internal and external auditors can provide the Audit Committee with valuable information as that body monitors it.

Sabina Nielsen, Simon I Peck, Winfried Ruigrok explore the substitution effects among three governance mechanisms, board monitoring potential, incentives and ownership structure, in a sample of 176 publicly listed companies in Switzerland, a country characterised by bank-centred governance system and high degree of ownership concentration. Results suggest that whereas ownership concentration per se does not substitute for monitoring by the board, shareholdings held by board and top management and presence of a shareholder on the board act as substitutes for board independence. Firms owned by financial institutions exhibit a negative relationship between board independence and shareholder representation on board, whereas in family controlled firms board and managerial ownership is the main substitute for board monitoring.

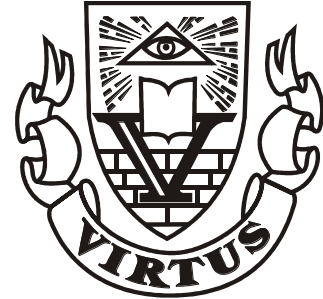
Frank S. Smith, Victor A. Puleo, Jr., K. Michael Casey explore the relationship between a firm's dividend payment and an external perception of whether the firm exercises good corporate governance. Consistent with an agency explanation of dividend payout, it was found that firms with higher corporate governance scores do pay lower dividends. The reduced cost associated with not seeking external funds as often as firms with higher dividends can be listed as a benefit for firms seeking to be known as better corporate citizens.

Evis Sinani, Derek C. Jones, Niels Mygind investigate the determinants and dynamics of firm efficiency. It was used a representative sample of Estonian firms for the period 1993-1999 – and are able to address problems that plague much previous work, such as the endogeneity of ownership. Our main findings are that: (i) foreign ownership increases technical efficiency; (ii) firm size and higher labor quality enhance efficiency, while soft budget constraints adversely affect efficiency; (iv) Estonian firms operate under constants returns to scale; (v) the percentage of firms operating at high levels of efficiency increases over time. As such our findings provide support for hypotheses that a firm's ownership structure and its characteristics such as firm size, labor quality, soft budget constraints and time of privatization are important for its technical efficiency.

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