

**CORPORATE
OWNERSHIP & CONTROL**

**КОРПОРАТИВНАЯ
СОБСТВЕННОСТЬ И КОНТРОЛЬ**

Postal Address:

Postal Box 36
Sumy 40014
Ukraine

Tel: +380-542-611025
Fax: +380-542-611025
e-mail: alex_kostyuk@mail.ru
alex_kostyuk@virtusinterpress.org
www.virtusinterpress.org

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Почтовый адрес редакции:

Почтовый ящик 36
г. Сумы, 40014
Украина

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

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EDITORIAL

Dear readers!

This issue of the journal is devoted to several issues of corporate governance.

Rodolfo Apreda sets forth a framework of analysis that links contractual, discretionary, regulatory and residual cash flows with decision rights over them. To attain this purpose, firstly we introduce the standard incremental cash flow model, underlying its main limitations. Secondly, we move on bringing to light cash flows to senior management and directors, as well as the so-often neglected investment portfolio. Next, we settle down to what we are going to call the compact cash flow model that comprises five building blocks, namely those arising out of assets, those addressed to owners, creditors, managers and directors, and lastly the company's investment portfolio. Afterwards, contractual, discretionary, regulatory and residual cash flows are enlarged upon. Last of all, we focus on decision rights over every constituent of each building block. This issue carries weight in Corporate Governance since stakeholders who claim or exercise decision rights, also could trespass on the rules of the game, becoming better off to the expense and damage of other stakeholders.

Moncef Guizani, Ezzeddine Abaoub, Kouki Mondher examine the possible association between the voting power of large shareholders and dividend payout policy for a panel of Tunisian firms over the period 1998-2004. The results show a negative relationship between the control stake of the dominant shareholder and payout rates. In contrast, the presence of another large shareholder affects the payout ratio positively. Our results also indicate that different owner types in control influence dividend policy differently. In particular, the control stake of families is associated with a significant negative impact on the dividend distributed whereas the voting power of financial institutions has a positive effect. We conclude that different owner classes have different role in corporate governance.

Shirley J. Daniel, Liming Guan, John P. Wendell narrate that Boards of Directors and their audit committees are responsible for the oversight of risk management for the enterprise. Because entities are being asked by rating agencies to more explicitly describe their enterprise risk management processes, boards and management will be well served to employ risk management tools to efficiently and effectively assist them in identifying areas of higher financial reporting risk. Studies using digit pattern analysis of earnings have consistently found that reported earnings are subject to misstatements due to inappropriate rounding. Recent actions by regulators make it clear that such misstatements, even when relatively small in magnitude, are unacceptable.

Christian Petersen, Thomas Plenborg discuss if and under what conditions growth in accounting variables (accounting numbers and financial ratios) is value creating. We find that growth in one-periodic earnings measures does not necessarily create wealth for shareholders. Only growth in economic income is value creating. Our analysis also provide evidence that users of accounting information should be aware of the quality of growth and distinguish between growth based on transitory vs. permanent components of earnings. Our analysis finally documents that growth in

earnings per share or return on equity caused by share repurchases has no economic significance.

Buhui Qiu investigates the effects of the bank's equity holding of the firm from a moral hazard perspective. The bank's equity holding of the firm is shown to help mitigate the conflicts between the firm's shareholders and debtholders. However, it also creates another moral hazard problem, namely, the bank as an institutional shareholder can collude with the firm manager to pursue perks from project return. Without this moral hazard problem, the bank's optimal equity holding of the firm is shown to be at the point where its share of the firm's equity equals its share of the firm's debt. With this moral hazard problem being taken into consideration, the bank's optimal equity holding should be less than its debt share in the firm.

Jo Ting Wei aims to examine the association between mandatory financial restatements and the turnover of firm executives—the chairman and the CEO in Taiwan. The findings show that there is positive relationship between mandatory financial restatements and the turnover of the CEO. However, we do not find there is positive association between mandatory financial restatements and the turnover of the chairman. The implications are as follows. As the CEO has power to make firm major decisions, including financial reporting, he should be responsible for financial restatements. The chairman is the leader of a firm. Replacing the chairman may significantly affect firm normal operation. Hence, firms are not easily to replace the chairman unless there is concrete evidence showing that he should be responsible for the financial restatements.

Mercedes Miranda argues that the change in the regulatory environment for public utilities provides a clean setting to study and compare the signaling and liquidity motivations for splitting stock. Before deregulation, the signaling motivation for splitting stocks is not applicable for these firms because the level of information asymmetry is low. Hence, the liquidity hypothesis should be the primary motivation for electric utilities to split stocks during this period. After deregulation, however, the signaling effect is expected to play a more dominant role because of higher level of information asymmetry. The results are consistent with the hypothesis posed. For the pre-EPACT period, liquidity motive seems to predominate in explaining the abnormal announcement return of utility stock splits.

Huson Joher Ali Ahmed analyzed the impact of a company's level of financing policy, dividend policy and corporate structure on firm performance measured by Tobin Q of Malaysian-listed at the presence or absence of growth opportunities. The study uses panel based regression approach to address whether or not policy variable such as dividend, leverage and corporate structure play differently in explaining the market based firm performance once firm faces growth opportunities or absence of growth opportunities. The analysis is based on a sample of 100 Composite Index components Companies on Kuala Lumpur stock exchange over a period of 4 years, from 1999 to 2002. Findings suggest that firm debt policy affect firm performance differently once firm face presence or absence of growth opportunities.

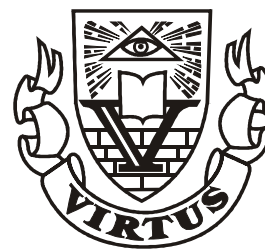
Chin-Chen Chien, Ken Y. Chen, Shan-Ying Wu investigate the relation between corporate governance and auditor selection for firms listed in Taiwan. More specifically, we use the divergence between control rights and cash flow rights (i.e., the ratio of control rights to cash flow rights) to measure the extent of the corporate governance mechanism whereas we use three quality levels to define auditor type - Big 5 industry specialist (highest quality), nonspecialist Big 5 (middle quality), or non-Big 5 auditor (lowest quality).

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