

**CORPORATE  
OWNERSHIP & CONTROL**

**КОРПОРАТИВНАЯ  
СОБСТВЕННОСТЬ И КОНТРОЛЬ**

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## **EDITORIAL**

*Dear readers!*

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

First of all, we introduce corporate governance practices in Australia. We have six papers considering corporate governance in Australia. We tried to do our utmost to have a good selection of paper on Australia. Therefore, you will enjoy reading papers on corporate board practices in Australia, stock market, corporate ownership structure, internal corporate governance and control.

Corporate governance as a field of research in Australia develops fast. During last five years of publishing the journal *Corporate Ownership and Control* we published more than 35 papers of various experts in corporate governance from Australia. Our reviewers were very optimistic regarding the future perspectives of corporate governance research in Australia.

For the second, this issue is truly international from the point of view that we tried to publish papers on corporate governance practices in many countries. Thus, we have papers on corporate governance in Germany, France, Brazil, Russia, Nigeria and Australia.

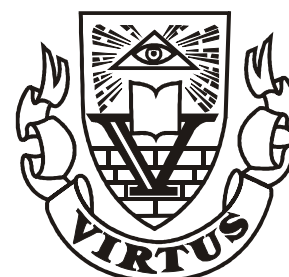
For the third, we decided to come back to such special section in our journal as *Corporate Board*. This topic of research is very perspective to research from the point of view of importance of involvement of various groups of stakeholders in strategic decision-making. Financial crisis lasting at the financial markets worldwide demonstrated a weakness of the recent board practices from the point of view of the board independence, accountability and responsibility.

For the fourth, the Publisher, Virtus Interpress and Ukrainian Academy of Banking initiated a research project of corporate governance in banks and financial companies. The main objective of research is to develop a banking model of corporate governance taking into account the specifics of banking. It should be undertaken under the new scholar school of corporate governance – neoinstitutional school of corporate governance in banks. The main focus will be done toward the board functions, committees, independent directors as mechanisms of participation of various groups of stakeholders such as clients of banks, employees, professional associations, etc. in corporate governance in banks. We have already received a confirmation to take part in this research from Oxford University, Cambridge University, University of Manchester. Therefore, your participation would be very useful and we are open for your suggestions to participate.

# CORPORATE OWNERSHIP & CONTROL

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*Sheraz Ahmed*

Using ownership and financial dataset from UBS Brunswick, we show that the use of accrual based accounting in Russia has resulted in lower informativeness of earnings. Opportunistic earnings management hypothesis holds where majority shareholders (controllers) enjoy short-term benefits of manipulating accounting numbers. Interestingly, the returns (net of market) increase when use of discretionary accruals to manage earnings increases in firms controlled by either state or oligarchs. However, such relationship does not exist when ownership is accumulated without control. We also found that state-owned companies use less discretionary accruals than other control groups. We do not find any evidence supporting performance measure hypothesis where firms manage earnings by discretionary accruals to offset the over or under reaction of economic shock.

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*Bernhard Schwetzler, Marco O. Sperling*

On a sample of first layer as well as ultimate ownership (10% and 20% cut-off threshold) data for 11 years between 1997 and 2007 for German firms listed in the DAX, we examine the dynamics of ownership structure. We find that ownership concentration strongly declined. Further, foreign financial institutions became an important investor group with an increase of average stake from 0.4% in 1997 to 9.1% in 2007. We conclude that the quality of corporate governance increased and the Germany capital market became more open during that period.

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*Nadine Levratto*

This paper aims at showing that ex post consequences of insolvency law are not the only one visible after a judge states that the amount of equity is not enough to repay all the debts. On the opposite, the judicial system that defines bankruptcy shapes the relationship between a firm and its stakeholders among which lenders play a specific role. Thus, the expectations of failure that are generally considered from a pure statistic point of view have to be enriched by the introduction of legal elements to

understand fully the strategic behaviour of lenders and borrowers. Such is the point we want to present here taking the French case.

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*Bruno Funchal, Fernando Caio Galdi, Paulo C. Coimbra*

This paper examines the relationship between corporate governance level and the bankruptcy law to such debt variables as firms' cost of debt and amount of debt under uncertainty (in the Knight's sense). First we find that the better the corporate governance and the harsher bankruptcy law, the lower the cost of debt. Second, we find that better governance and a harsher bankruptcy laws have a positive effect on debt. As consequence, firms increase their set of investment projects financed by creditors. Finally, uncertainty has a negative effect on terms of debt (higher interest rate and smaller set of financed investment projects) and such effect is stronger for firms with worse corporate governance and for economies with a bankruptcy law that is lenient to debtors.

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*Yi Wang, Trevor Wilmshurst*

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*Yi Wang, Bob Clift*

In this paper several theories, which make different predictions about the effect of board leadership structure on firm performance, are tested. The results indicate that, for Australian listed companies, there is no strong relationship between leadership structure and subsequent performance. It is reported that companies with higher blockholder ownership or lower managerial shareholdings tend to have an affiliated chairman; firm with higher managerial shareholdings tend to have an executive chairman. The evidence suggests that there is no one optimal leadership structure; each structure, which could be an outcome of a rational choice process influenced by other governance characteristics of individual firms, may have associated costs and benefits.

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*Sven-Olof Collin*

We present a contingency approach to the board's functional emphasis, considering a fourth function in addition to monitoring, decision making, and service or resource provision. The additional function is conflict resolution (or principal identification). The approach contrasts with mainstream research by assuming that the firm is a nexus of investments, avoiding the empirical assumption that the shareholder is the sole principal. We derive propositions that are not restricted to any empirical category of a corporation, and address praxis implications for managing functional disharmony.

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*Samuel Nana Yaw Simpson*

This paper seeks to examine the Boards of NGOs in line with best corporate governance practices using evidence from Ghana. Data collected were analysed using a comparative case approach which involved a comparison of the Boards of the four (4) main categories of NGOs in Ghana to ascertain whether they exhibit differences or similarities. NGOs in Ghana exhibited some weaknesses ranging board appointment to other board characteristics which depart from international best practices. Besides, there are no reference guides for NGO Board or codes on governance for NGOs in Ghana like in other countries. Therefore, there is the need to develop codes/by-laws or reference guidelines for NGOs, supported by an enabling environment to realise the full potential of NGOs.

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**SECTION 3. NATIONAL PRACTICES OF CORPORATE  
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*Ameeta Jain, Dianne Thomson*

This paper examines board responsibilities and accountability by management and Board of Directors in relation to the National Australia Bank's (NABs) performance. The evidence suggests that NABs poor performance was consistent with a lack of accountability, poor corporate governance and board dysfunction associated with fraudulent currency trading and the subsequent AUD360 million foreign currency losses. The NAB's performance is investigated by utilising accounting-based measures of profitability and cost efficiency as proxies for performance. Following the foreign currency trading losses in 2004 the NAB under-performed the other major Australian banks in terms of profits, cost to income ratio and growth in assets.

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*Julian Fishman, Gerard Gannon, Russell Vinning*

This paper seeks to analyse the relationship between ownership structure and corporate performance for fifty firms listed on the Australian Stock Exchange during 2002-2003. The study initially tests a two equation model similar to that in the existing literature, but is distinguished from prior literature by subsequently reclassifying leverage. By categorising leverage as an endogenous variable, an examination of the relationship between ownership and performance is undertaken through ordinary least squares and two stage least squares analysis of a three equation econometric model. Interestingly, empirical results illustrate the fact that managerial ownership impacts negatively on firm performance which is consistent with the management entrenchment hypothesis.

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*Dianne Thomson*

The paper examines the relation between changing ownership structure and performance of Australian building societies. An analysis and discussion of the theories of organizational development and change is undertaken to explore the mutual building societies' motivation for change. The financial performance measures, provided by financial ratios of the major mutual building societies in Australia, are examined to assess the behaviour of building societies under different governance structures in the 1980s and 1990s. The theoretical and empirical literature has suggested that mutual deposit-taking institutions should have lower profitability and higher operating expenses than their publicly listed counterparts.

**INFORMATION LEAKAGE AND INFORMED TRADING AROUND  
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*Campbell Heggen, Gerard Gannon*

This paper presents an empirical study of information content and trading behaviour around unscheduled earnings announcements – comprising of profit upgrades, profit warnings and neutral trading statements – made by ASX-listed companies during 2004. The contention is that informed trading impacts on the stock returns and trading volumes of listed entities, and hence abnormal returns or trading volumes observed prior to an announcement provide evidence of information leakage. The paper models a range of factors that potentially influence firm disclosure practices and contribute to the level information asymmetry in the market during the pre-announcement period.

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**SUBSCRIPTION DETAILS**