

**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.

Sanghoon Lee seeks to examine the effect of equity ownership structure on firm financial performance in South Korea. I focus on the role of two main dimensions of the ownership structure: Ownership concentration (i.e., the distribution of shares owned by majority shareholders) and identity of owners (especially, foreign investors and institutional investors). Using panel data for South Korea in 2000--2006, I find that firm performance measured by the accounting rate of return on assets generally improves as ownership concentration increases, but the effects of foreign ownership and institutional ownership are insignificant. I also find that there exists a hump-shaped relationship between ownership concentration and firm performance, in which firm performance peaks at intermediate levels of ownership concentration. The study provides some empirical support for the hypothesis that as ownership concentration increases, the positive monitoring effect of concentrated ownership first dominates but later is outweighed by the negative effects, such as the expropriation of minority shareholders. The empirical findings shed light on the role ownership structure plays in corporate performance, and thus offer insights to policy makers interested in improving corporate governance systems in an emerging economy such as South Korea.

Almas Heshmati, Hans Lööf provide an empirical analysis of the two-way causal relationship between investment and performance indicators at the firm level. The performance variables include sales, value added, profit, cash flow, capital structure and employment. The investment variables are research and development and physical capital. A multivariate vector autoregressive approach is applied to a panel of Swedish firms observed between 1992 and 2000. Results show evidence of some two-way causal relationships, which are mainly transitory in character. Significant heterogeneity is observed in the firms' investment and performance behavior by their size.

Ahmad Erani Yustika compares the transaction costs between state-owned (Ngadiredjo) and privately-owned (Kebon Agung) sugar mills. The study shows that in Kebon Agung Sugar Mill transaction costs are higher than production costs, while in Ngadiredjo Sugar Mill the reverse is true. However, the high transaction costs in Kebon Agung Sugar Mill cannot be attributed directly to inefficient institutions, because Ngadiredjo Sugar Mill incurred high costs for plants, land preparation, and fertilizer, which decreased the proportion of transaction costs.

Wendy Archilles, Jennifer Blaskovich, Terence J. Pitre discuss and provide theoretical explanations for two negative consequences associated with more frequent reporting. Based on search from psychology and sociology we theorize how more frequent reporting can lead to (1) goal seeking behavior by managers, (2) inaccurate predictions from investors (3) higher dispersion of investor beliefs and (4) higher uncertainty of investor beliefs.

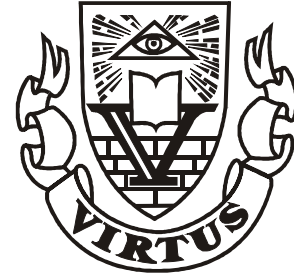
Gary L. Caton, Jeffrey Donaldson, Jeremy Goh extend these findings by investigating the announcement effect on rival companies, while another examines the equity performance of firms emerging from bankruptcy. We combine these two lines of inquiry by examining the effect on rivals when a firm emerges from the protection of Chapter 11. We find both significant negative stock market returns and significant negative revisions in analysts' earnings forecasts for rivals of successfully reorganized companies.

Silvia Rigamonti examines the evolution of ownership of cash flow rights and control of voting rights of firms that went public in Italy over the period 1985-2005. At the IPO, the ownership structure does not evolve towards a dispersed one. Even 10 years after the flotation, the initial ultimate shareholder retains the majority of voting rights. Though control is valuable, original owners do not systematically set up structures that dissociate cash flow from voting rights.

CORPORATE OWNERSHIP & CONTROL

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