

**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.

C.R. Krishnaswamy explores the effects of agency costs on the performance of private equity. We discuss why private equity firms generally have much lower agency costs. We show using Capital Asset Pricing Model approach that private equity funds would be better off by investing in firms with low beta than high beta firms.

Edwin H. Neave, Lewis D. Johnson use the theory of transactions economics to model the process whereby venture capitalists and financiers negotiate the terms of financing. We show that the process has both static and dynamic elements, and involves incomplete information in a world of uncertainty. Central to the arrangement is the alignment of borrower attributes and lender capabilities.

Muhammad Jahangir Ali, Kwong San Ng examine whether ownership structure and internal governance mechanisms are associated with earnings management in Hong Kong. We hypothesize that the earnings management of a firm is associated with the ownership structure including ownership concentrations, different ownership concentration levels of family held companies and substantial institutional investors; and internal governance mechanisms including firms that are audited Big 4 auditors and proportion of outside directors. The non-discretionary accruals are measured using modified Jones model with cross-sectional basis. We employ multivariate model to investigate the relationship between discretionary accruals and various independent variables. Our results show that discretionary accruals are positively associated with high/low level of family ownership and negatively related to firms that are audited by Big 4 auditor as hypothesized.

Salah Ben Hamad implements an exploratory analysis in order to pick up the behaviour of the managers of SMALL AND MEDIUM FIRMS (SMF) in financial decisions making. An Important finding in our research is that the traditional Modigliani and Miller framework cannot be merely translated to analyse the financing decision in a context of asymmetric information and agency conflicts among the different corporate actors. Empirical evidence is performed on a sample of Tunisian SMF.

Benjamin I. Ehikioya, Qin Yuanjin, Xie Keifa and Chen Yun investigate how ownership structure impacts on the corporate performance of listed firms in China. The study uses sample data of firms listed in the Shanghai and Shenzhen stock exchanges for the

five year fiscal period that ended 2005. The results of the panel data regression analysis suggests firm performance to have positive and significant relation with the proportion of shares held by the institution, through the legal person holding companies. In addition, while state ownership indicates negative influence on performance, individual and foreign investors are found to have positive effect on performance, though at a minimal levels. Interestingly, the effect of ownership structure is stronger in firms experiencing the dominance of legal person share holdings over state shares. Further, firm size and ratio of debt to equity are also observed to have influence on the performance of Chinese listed firms. These findings are of great significant to policymakers, academics, shareholders and other stakeholders.

Francesca di Donato, Riccardo Tiscini investigate the effects of “bank-firm connection” on the conditions of credit relationship. In particular, we find that the “bank-firm connection” lowers the leverage ratio of non financial companies, while it increases their cost of debt.

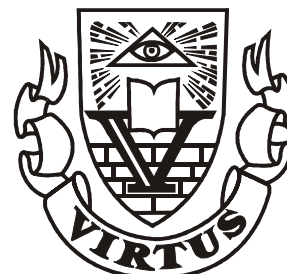
Yi-Hsien Wang, Che-Yang Lin analyze the impacts of management turnover in Taiwanese electronic industries during 1996-2006 using the price and the trading volumes of underlying stock around the TSE announcement date. These results provide evidences that market participator would hold an active position following the appointment of a specialized, innovative, and self-motivated CEO. Hence, positive abnormal stock returns and trading volumes were expected. However, chairman turnover suggests that the corporate power structure of Board of Directors is unbalanced, thus, market participators would hold a conservative position.

Anna Grandori, Giuseppe Soda propose a negotiation analytic approach to the design of corporate governance mechanisms. The main research questions addressed in the paper are: Which packages of governance mechanisms maximize the utility of firm representatives – CEO – and human resource providers? On which matters do interests converge and on which do they diverge? Which packages are Pareto-rankable and which are not? Where are there areas of preferences balancing and effective negotiation? The answers to those questions structure the “governance game”, indicating what are the interesting and sensible values for each mechanism, and what are the most interesting (value adding) combinations among policies on each mechanism. The approach is applied to a database of preferences over a wide array of governance and organisational mechanisms, expressed by two samples of relevant actors (CEOs and high potential managers working in 315 firms – domestic or subsidiaries – located in Italy) and contributes both in method and in the substantive identification of solutions.

CORPORATE OWNERSHIP & CONTROL

Volume 6, Issue 3, Spring 2009 (Continued - 4)

CONTENTS



Editorial	422
<hr/>	
AN ANALYSIS OF THE PERFORMANCE OF PRIVATE EQUITY: AGENCY COST APPROACH	424
<i>C.R. Krishnaswamy</i>	
ELEMENTS OF STRATEGIC NEGOTIATION UNDER UNCERTAINTY: THE CASE OF VENTURE CAPITALISTS	429
<i>Edwin H. Neave, Lewis D. Johnson</i>	
OWNERSHIP STRUCTURE, INTERNAL GOVERNANCE AND EARNINGS MANAGEMENT IN HONG KONG	437
<i>Muhammad Jahangir Ali, Kwong San Ng</i>	
FINANCIAL MANAGER DECISIONS IN SMALL AND MEDIUM TUNISIAN FIRMS	450
<i>Salah Ben Hamad</i>	
OWNERSHIP STRUCTURE AND FIRM PERFORMANCE IN EMERGING MARKETS: EVIDENCE FROM CHINESE LISTED FIRMS	465
<i>Benjamin I. Ehikioya, Qin Yuanjin, Xie Keifa and Chen Yun</i>	
CROSS OWNERSHIP AND INTERLOCKING DIRECTORATES BETWEEN BANKS AND LISTED FIRMS: AN EMPIRICAL ANALYSIS OF THE EFFECTS ON DEBT LEVERAGE AND COST OF DEBT IN THE ITALIAN CASE	473
<i>Francesca di Donato, Riccardo Tiscini</i>	
MANAGEMENT TURNOVER AND CORPORATE PERFORMANCE IN TAIWANESE ELECTRONIC INDUSTRIES	482
<i>Yi-Hsien Wang, Che-Yang Lin</i>	
GOVERNANCE AND ORGANISATION DESIGN: A NEGOTIATION AND NETWORK ANALYTIC APPROACH	489
<i>Anna Grandori, Giuseppe Soda</i>	