

**CORPORATE
OWNERSHIP & CONTROL**

**КОРПОРАТИВНАЯ
СОБСТВЕННОСТЬ И КОНТРОЛЬ**

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EDITORIAL

Dear readers!

This issue of the journal *Corporate Ownership and Control* delivers to the reading audience the most important issues of corporate governance, such as corporate social responsibility, shareholders' and stakeholders' rights, board diversity and responsibility, ownership structure, executive compensation.

From the point of view of the international comparison of the corporate governance practices we did our utmost to compose the issue of the journal of various countries. These are Japan, Germany, Spain, China, Taiwan, Malaysia, Jordan, Pakistan. An Asian perspective of corporate governance was considered by the authors with a deep concern.

The financial crisis is not going to finish as fast as it was expected by experts. The year 2009 is the time for testing the new corporate governance standards which were failed during the crisis. The most critical issues to be reconsidered are the board committees' practices, with application to the decision control, directors' independence, with application to the new criteria of independence, executive compensation, with application to the control of the compensation practices, independent directors' remuneration, with application to the committees' remuneration, and stakeholders' rights, with application to searching for the mechanisms of participation of the stakeholders in corporate governance, especially in financial companies and banks.

We are going to invite the authors to send us the papers which are entirely devoted to the issue of financial crisis. It is expected to publish a special issue of the journal describing the corporate governance practices during the crisis. Taking into account that we have many institutional, corporate subscribers, more than 220 corporations and banks, from 32 countries of the world we guarantee that all new ideas how to overcome the crisis will be delivered to the corporate world immediately.

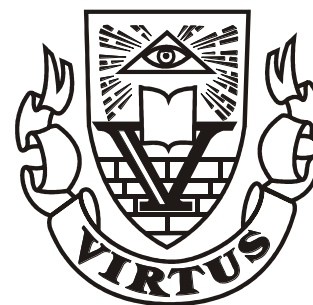
Moreover, we expect to invite the corporate leaders to publish in our journal the most effective approaches to improve corporate governance practices during the crisis. This will concern both regulators and corporations.

In general, this year is expected to be a test for abilities of academics and practitioners to unite their efforts to overcome the crisis. Our journal is going to be on a forefront of these efforts!

CORPORATE OWNERSHIP & CONTROL

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Silvia Ayuso, Antonio Argandoña

The central question posed in this paper will be how to organize board composition in order to ensure a responsible corporate governance both from a CSR and a good governance perspective. Adopting a stakeholder approach to corporate governance, we analyze the arguments given by different theoretical approaches for linking specific board composition with financial performance and CSR, and discuss the empirical research conducted. Despite the inconclusive findings of empirical research, it can be argued that diverse stakeholders on the board will promote CSR activities within the firm, but at the same time will increase *board capital* (which ultimately may lead to a better financial performance). Finally, we propose a model for selecting board members based both on ethical and pragmatic arguments.

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Junko Ueda

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Hidetaka Aoki

This paper analyzes the effects of firm performance and governance factors on the decrease in diversification of Japanese firms in the 1990s. We focus on the cases of the decrease in diversification, because many previous studies proved that diversification caused firm value discount. Adjusting an

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Eugenia Suárez-Serrano

Corporate social responsibility (CSR) in tourism is particularly interesting given the fact that society is part of the service and companies should assume a responsibility with the places they are located in. Several studies analyse the reporting of CSR activities, however, there is modest research relating CSR practices in the hospitality industry. The purpose of this paper is to provide two case studies in the Spanish hospitality industry, Sol Meliá and NH, which are the only top hotel companies that offer information about their CSR practices in their web sites and Annual Reports. Although the tourism industry still has a long way to do in the reporting of CSR activities to become equal to other industries, in the two cases analysed a clear commitment to CSR matters it is observed within its various spheres of action.

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Sam Hurst, Ed Vos

This paper analyses a combination of factors to try and determine whether they explain CEO compensation, and in turn help determine what makes the board of directors more effective. Factors include busy boards, local or international board members, dependent and not independent board members, director's pay and tenure variables. Of the new and old factors considered in this approach and using a sample size of 31 NZ firms over the 2006/2007 years, a correlation existed between firm size/firm performance and CEO compensation. Further distinctions in regards to busy boards showed no significant relationship to CEO compensation, differing from previous studies, and casting doubt on whether it matters how busy the board is. Also the locality of the board was not a determining factor in CEO compensation.

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Alberto Onetti, Alessia Pisoni

This paper aims to analyse the relationships (equity and non-equity) between German banks and German firms, which are the peculiarities of the German institutional system of corporate governance. Scholars agree on the fact that cross shareholdings among banks, insurance companies and institutional firms (Charkham 1994, Baums 1993), combined with long term shareholdings (Gerschenkron 1989), and close relationships and interlocking between board members of different companies (Tilly 1969, Hopt and Prigge 1998), are the main features of bank-firms relationships in Germany. Specifically the main purpose of the paper is to demonstrate, for the panel of German companies investigated, that bank-firm relationship relies not only on patrimonial linkages but also on personal relationships.

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Andy Chein

Some research on the causes of bank failure finds that failing institutions had large proportions of problem loans prior to failure, and that the extra costs of administering these loans reduced the bank performance. At this moment, if bank management goes after maximizing one's utility, not the bank performance, in addition confronting from rising competitive environment, it would be quite dangerous. So, this article studies the impact of problem loan, ownership structure, and market structure upon the bank performance with the basis of cost efficiency. Empirical results show that

problem loan, ownership structure, and market structure have a significant effect upon the bank performance.

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Yih-Wenn Laih, Chun-An Li

We study the price discovery process and common factor weights of *SS50* (the FTSE China A50 Index traded in Mainland China) and *A50* (the iShares FTSE A50 China Tracker traded in Hong Kong) using daily open-to-open price pairs and close-to-close price pairs. Due to Qualified Domestic Institutional Investor (QDII) scheme (13 April 2006) and US subprime mortgage crisis (middle 2007), our sample, which covers from November 18, 2004 to October 31, 2008, is divided into three periods. We find *A50* has a much larger common factor weight than *SS50*, and *A50* dominants for both open and close prices during all periods. The QDII enlarges the contribution of *SS50*, but financial crisis reduces it.

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Talat Afza, Choudhary Slahudin

Due to the separation of ownership and control in modern corporation, the form of relationship between firm performance and insider ownership has been the subject of empirical investigation for last many decades. It is argued, that as managers' equity ownership increases, their interests coincide more closely with those of outside shareholders, and hence, the conflicts between managers and shareholders are likely to be resolved. Thus, management's equity ownership helps resolve the agency problem and improve the firm's performance (Jensen and Meckling, 1976; Agrawal and Knoeber, 1996; Chen et al., 2003). However, several studies suggest that management's ownership does not always have a positive effect on corporate performance (Demsetz and Villalonga, 2000; Cheung and Wei, 2006). Most of the empirical studies on this issue have focused on the developed economies and there is little empirical evidence on the emerging economies in general and almost no work has been done on emerging economy of Pakistan in particular. Therefore, present study is an effort to analyze the relationship between insider ownership and firm performance in emerging market of Pakistan while taking a sample of 100 firms listed on Karachi Stock Exchange.

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Rami Zeitun

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William Cheung, Scott Fung, Shih-Chuan Tsai

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