EDITORIAL

Dear readers!

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

Walter Aerts, Peng Cheng examine the impact of ownership structure on two distinct investor perception management processes: earnings management and explanatory impression management with regard to earnings-related outcomes. Using detailed content analysis of earnings explanations in the MDA (Management Discussion and Analysis) section of 104 recent Chinese IPOs, we find that firms exhibit intense assertive verbal behavior in framing positive earnings outcomes. Ownership structure marginally affects both the amount of assertive causal tactics used and the assertive bias in the causal disclosures. However, the effect of ownership structure is more evident for earnings management propensity. Earnings management propensity is significantly affected by the nature of the controlling shareholder. This effect is intensified by the size of shareholdings of the controlling shareholder.

Lian-fu Ma, De-qi Wu Yun-jia Zhong examined the effects of mandatory governance and voluntary governance on firm performance, which based on a constructed index for China listed firms voluntary governance level, we find that mandatory governance has no significant effect on firm performance; voluntary governance has an impetus effect on firm performance, and the impetus effect of voluntary governance on firm performance is higher with lower mandatory governance. These results are still exist even considering the endogeneity of voluntary governance.

G. Sivalingam explores the effect of the New Economic Policy on the reforms to the financial system in Malaysia that have taken place since the 1997 East Asian Financial Crisis. The paper discusses the reforms that were introduced to stabilize and strengthen the financial system and the institution of capital controls and a fixed exchange rate to stabilize the exchange rate in the context of the New Economic Policy. The paper discusses the reform measures that were taken to improve the balance sheet of banks and corporations and to protect depositors. The reforms were efficiently executed and the banking system and financial system are stable and banks have increased their lending over time. However, the financial system still remains susceptible to a terms of trade shock because the financial system persists as a relationship based system rather than a market based system although efforts have been made to strengthen the corporate governance of the financial institutions. However, corporate governance reforms are consistent with the objectives of the New Economic Policy and there is resistance to introducing reforms that converge with Anglo-Saxon norms of corporate governance.

John Rice and Nigel Martin consider the reasons a firm from a developed nation would seek to invest in a transition economy. Where research has been undertaken into the determinants of investment from the recipient point of view, it has tended to investigate the decision in terms of national systems (Resmini, 2000) rather than in terms of the characteristics of those individual firms that receive the investment (Campos & Kinoshita, 2002; Janicki & Wunnava, 2004).

Ananda Rao Samudhram and G. Sivalingam provide a study which is based on firms that have reported research and development activities in their annual reports. It does not capture the firms that may have conducted research and development but failed to report it. As such, it could possibly underestimate the research and development levels in public firms.

Maria Strydom and Michael Skully develops a weighted internal governance index as a comprehensive proxy of good governance in Australia. We identify those variables empirically found to be associated with good governance and include them in a principal component analysis to calculate the index. We apply Principal Component Analysis to examine the internal governance of a sample of 450 listed Australian companies for the period 1999 – 2006. Results indicate that there are two key facets to internal governance in Australia: Board Activity and Board Independence. They in turn incorporate eight specific governance factors which are included in the index on a weighted basis. This approach contributes to the literature by overcoming a number of limitations of previous governance measures and is the first internal governance index to be developed. A similar approach could be employed in other countries to overcome difficulties with previous index efforts and to provide a more comprehensive measure of firm level (internal) governance. The findings of this study have many implications: for firms, there is now a straight forward basis on which to compare their governance standards with those of competitors as well as against prior years. For investors, they can now easily identify which firms are better governed and incorporate this factor in the share selection process as well as lobby for further improvements.
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