

**CORPORATE  
OWNERSHIP & CONTROL**

**КОРПОРАТИВНАЯ  
СОБСТВЕННОСТЬ И КОНТРОЛЬ**

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Journal Corporate Ownership & Control is published four times a year, in September-November, December-February, March-May and June-August, by Publishing House "Virtus Interpress", Kirova Str. 146/1, office 20, Sumy, 40021, Ukraine.

*Information for subscribers:* New orders requests should be addressed to the Editor by e-mail. See the section "Subscription details".

*Back issues:* Single issues are available from the Editor. Details, including prices, are available upon request.

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*Corporate Ownership & Control*

ISSN 1727-9232 (printed version)  
1810-0368 (CD version)  
1810-3057 (online version)

Certificate № 7881

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Журнал "Корпоративная собственность и контроль" издается четыре раза в год в сентябре, декабре, марте, июне издательским домом Виртус Интерпресс, ул. Кирова 146/1, г. Сумы, 40021, Украина.

*Информация для подписчиков:* заказ на подписку следует адресовать Редактору журнала по электронной почте.

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*Корпоративная собственность и контроль*

ISSN 1727-9232 (печатная версия)  
1810-0368 (версия на компакт-диске)  
1810-3057 (электронная версия)

Свидетельство КВ 7881 от 11.09.2003 г.

*Виртус Интерпресс. Права защищены.*

## EDITORIAL

*Dear readers!*

The recent issue of the journal *Corporate Ownership and Control* pays attention to issues of corporate ownership and control, risks and board practices. Asian experience in terms of corporate governance and financial crisis is also under the scope of researches. More detailed issues are given below.

*Apostolos K. Apostolou and Maria-Eleni K. Agoraki* analyzes the relationship between risk-taking and corporate governance indicators, in terms of board characteristics, financial information quality and ownership structure. *Suzette Viviers, Tamzin Ractliffe and Dean Hand* brings new knowledge on impact investing in South Africa by defining the phenomenon, outlining the relationship between philanthropy, responsible investing and impact investing. They discuss the moral roots, historical development of these three concepts and provide some suggestions. The interrelationships between several external social institutions and related party transactions disclosure across 49 countries is represented in research made by *Walaa Wahid ElKelish*. This investigation represents contribution towards the development of a comprehensive framework for related party transactions disclosure practices across countries.

*Jessica Hong Yang and Nada K. Kakabadse* pays attention to the impact of the global financial crisis on financial system reform in China. Their conceptual paper provides an insightful review of the corporate governance literature, regulatory reports and news articles from the financial press.

Asian Financial Crisis in 1998 and corporate scandals in the U.S. have triggered an increased attention of researchers and policy makers on the agency problem between controlling shareholders and minority investors from the point of view of *Nhut H. Nguyen and Yubo Liu*. One respect of this problem is the private benefits of control. They investigate the relationship between investor protection and private benefits of control.

Researches and practitioners who are interested in highlighting questions about ownership will be glad to get new information from several papers published in the journal. Using the data of financial institutions listed in the Thai stock exchange during the 1997 East Asian financial crisis, *Piruna Polsiri* shows that to develop sound prediction models that are robust across time to failure models, ownership variables should be incorporated in the models. *Grant Richardson and Sidney Leung* examines the impact of family ownership control on earnings management for firms operating in Hong Kong.

The relationship between board leadership, firm financial performance and agency costs on behalf of a sample of multinational company subsidiaries (MNCs) and local public companies (LPCs) in Sri Lanka is examined in paper by *Nirosha Hewa Wellalage and Stuart Locke*. *Shanthy Rachagan* critically examines the legal framework protecting minority shareholders of Malaysian Public Listed Companies against controlling shareholders (also referred to as substantial shareholders) and directors being engaged in related party transactions and other conflict of interest situations. *Yuan George Shan and Lei Xu* examines impacts of ownership concentration and various ownership categories on the performance of the 28 listed financial institutions in China, between 1999 and 2009.

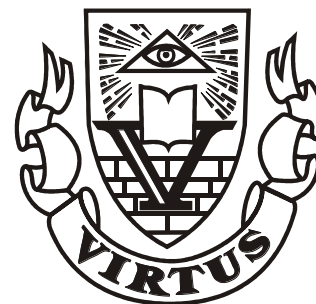
We hope that you will enjoy reading the journal and in future we will receive new papers, outlining the most important issues and best practices of corporate governance!

# CORPORATE OWNERSHIP & CONTROL

VOLUME 8, ISSUE 4, SUMMER 2011

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*Apostolos K. Apostolou, Maria-Eleni K. Agoraki*

This paper analyzes the relationship between risk-taking and corporate governance indicators, in terms of board characteristics, financial information quality and ownership structure. Unlike previous studies, we apply a broad range of corporate governance indicators and use a suitable econometric model to solve for possible endogeneity issues. The empirical framework is applied to an industry-wide sample of UK firms during the period 2002-2009. We find that board size and more executives positively affect firm risk-taking, while independence in audit committees has a negative impact. Finally, introducing firm specific characteristics does not affect the robustness of the results.

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*Suzette Viviers, Tamzin Ractliffe, Dean Hand*

This paper contributes to the body of knowledge on impact investing in South Africa by defining the phenomenon, outlining the relationship between philanthropy, responsible investing (RI) and impact investing, and discussing the moral roots and historical development of these three concepts. Attention is also given to the current status of philanthropy, RI and impact investing internationally and locally. A review of 53 local RI funds established over the period 1 June 1992 to 31 December 2010 reveal that the majority have an impact investing focus, either on its own or in combination with other RI strategies. The challenges in stimulating growth in impact investing in South Africa are highlighted and suggestions provided to address these challenges.

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***Walaa Wahid ElKelish***

This paper investigates the interrelationships between several external social institutions and related party transactions disclosure across 49 countries. A theoretical framework is proposed to encompass the interrelationships between cultural values, legal environment, government intervention in the economy, political environment, and related party transactions disclosure. Empirical results using path analysis showed that there are significant indirect effects of cultural values and gross national production per capita on related party transactions disclosure, whereby the legal environment and government intervention in the economy play intervention roles in this context. This investigation represents contribution towards the development of a comprehensive framework for related party transactions disclosure practices across countries.

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***Jessica Hong Yang, Nada K. Kakabadse***

This paper reviews the impact of the global financial crisis on financial system reform in China. Scholars and practitioners have critically questioned the efficiencies of the Anglo-American principal-agent model of corporate governance which promotes shareholder-value maximisation. Should China continue to follow the U.K.-U.S. path in relation to financial reform? This conceptual paper provides an insightful review of the corporate governance literature, regulatory reports and news articles from the financial press. After examining the fundamental limitations of the laissez-faire philosophy that underpins the neo-liberal model of capitalism, the paper considers the risks in opening up China's financial markets and relaxing monetary and fiscal policies. The paper outlines a critique of shareholder-capitalism in relation to the German team-production model of corporate governance, promoting a "social market economy" styled capitalism. Through such analysis, the paper explores numerous implications for China to consider in terms of developing a new and sustainable corporate governance model. China needs to follow its own financial reform through understanding its particular economy. The global financial crisis might help China rethink the nature of corporate governance, identify its weakness and assess the current reform agenda.

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**SECTION 2. CORPORATE BOARD PRACTICES**

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***Nhut H. Nguyen, Yubo Liu***

The 1998 Asian Financial Crisis and more recent corporate scandals in the U.S. have triggered an increased attention of researchers and policy makers on the agency problem between controlling shareholders and minority investors. One respect of this problem is the private benefits of control. In this paper, we investigate the relationship between investor protection and private benefits of control. We find consistent evidence with Dyck and Zingales (2004) that the degree of investor protection still matters in curbing private control benefits for the more recent period 1999-2007. More importantly, we find that private benefits of control have decreased significantly over time. Finally, our results show weak evidence of differential decreases in the value of control for weak and strong investor protection countries.

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***Piruna Polsiri***

In an emerging economy where ownership concentration is common and legal protection of outside investors is weak, financial and economic factors that are widely documented might not have been sufficient in constructing sound models to predict financial institution failures. Using the data of financial institutions listed in the Thai stock exchange during the 1997 East Asian financial crisis, this study showed that to develop sound prediction models that are robust across time to failure models, ownership variables should be incorporated in the models. Specifically, in the logit models that include both financial and ownership variables, 85.45%, 85.41%, and 91.49% of financial institutions were correctly classified in the models using the data of one, two, and three years prior to failure, respectively. It was also found that the presence of family as the largest shareholder increases the probability that a financial institution was closed. This evidence supports the *expropriation effects* of controlling families. Finally, the results suggested evidence of a “too-big-to-fail” policy in the closure procedures of Thai financial institutions during the East Asian financial crisis.

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***Grant Richardson, Sidney Leung***

This study examines the impact of family ownership control on earnings management for firms operating in Hong Kong. We find evidence that family-controlled firms are less likely to engage in earnings management activities in the earnings management settings to avoid reporting an earnings decline and to avoid reporting a loss than non-family-controlled firms. Additionally, we observe that deferred tax expense is useful in detecting earnings management in the earnings management settings to avoid reporting an earnings decline, to avoid reporting a loss, and to avoid failing to meet or beat the consensus analysts’ earnings forecast. Moreover, we find that the positive association between deferred tax expense and earnings management is weakened significantly by family ownership control. Overall, the empirical evidence indicates that lower earnings management is more prevalent in family-controlled firms compared to non-family-controlled firms. This finding is consistent with a greater alignment of interest between controlling and outside owners, rather than the expropriation by the controlling families which can be achieved by managing reported earnings.

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***Nirosha Hewa Wellalage, Stuart Locke***

The relationship between board leadership, firm financial performance and agency costs is examined on behalf of a sample of multinational company subsidiaries (MNCs) and local public companies (LPCs) in Sri Lanka. Five years of data for 86 MNC subsidiaries and 113 LPCs, are collected and observations are analysed using a dynamic panel GMM estimation. This study provides empirical support for stewardship theory and contingency theory when firms are multinational subsidiaries. Moreover, findings support agency theory when firms are local public companies. Finally, this study indicates that there is no optimal board leadership structure. Hence, when companies commence their exploration of corporate governance practices, firms need to recognise that firm characteristics and contingency perspective boost the impact of board leadership structure on corporate financial performance.

**PROTECTING MINORITY SHAREHOLDERS IN MALAYSIAN PUBLIC LISTED COMPANIES AGAINST CONFLICTS OF INTEREST BY RELATED PARTIES: SOME IMPORTANT DEVELOPMENTS** **123**

*Shanthy Rachagan*

The global financial crisis has highlighted instances of conflicts of interest and corporate abuse by company controllers. This has been the case in Malaysia and elsewhere, where weaknesses in the legal framework have enabled corporate misconduct to occur. This paper critically examines the legal framework protecting minority shareholders of Malaysian Public Listed Companies (PLCs) against controlling shareholders (also referred to as substantial shareholders) and directors being engaged in related party transactions (RPTs) and other conflict of interest situations. It considers gaps in the law which have enabled related parties to engage in improper transactions with their companies and outlines recent developments aimed at strengthening the rules protecting shareholders against improper RTPs. The paper considers the significance and likely effectiveness of recent reforms.

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*Yuan George Shan, Lei Xu*

Nowadays the finance industry plays vital roles in supporting China's economic growth. This study examines impacts of ownership concentration and various ownership categories on the performance of the 28 listed financial institutions in China, between 1999 and 2009. Our results indicate that ownership concentration, legal person and foreign ownership do not improve financial institutions' performance while state ownership has negative impacts. However, these results are moderated by firm size. State and legal person ownerships have positive impacts on large financial institutions' performance because of their great public scrutiny and political pressure.

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**SUBSCRIPTION DETAILS**

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