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ROLE, DUTIES & COMPOSITION

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EDITORIAL

Dear readers!

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

Afzalur Rashid examines if the CEO duality influence the firm economic performance in Bangladesh and the moderating effects of board composition in the form of outside independent directors. While doing so, he examines the relationship between CEO duality and firm performance during the pre appointment of outside independent directors and post appointment of outside independent directors (the role of other corporate governance mechanism as moderating variable). The finding is that there is a negative (non-significant) relationship between CEO duality and firm performance before appointment of outside independent directors in the board. However, independent leadership structure and firm performance is found to be positively related following the acquisition of resource (outside independent directors in the board) supporting the ‘resource dependence theory’. The findings of his study partially support the ‘agency theory’ and ‘resource dependence theory’ but do not support the stewardship theory. The study contributes to the literature on CEO duality in the context of less a developed country.

Muhammad Nurul Houque and Tahmin Fatema Islam utilize two basic approaches to measure the quality of earnings which control two different dimensions of earnings management. The research design is structured primarily on the basis of calculating two different measures of the quality of earnings on the industry level and on the company level. They calculate earnings quality for New Zealand public firms from the Q4SIS database for 2004-2007. This research concludes that various stakeholders should apply more than one measure for the quality of earning in order to have strong evidence about the level of quality before taking any corrective action or making any decision related to that company. If one company is having low quality of earning according to one technique and high quality of earnings according to another, the stakeholders cannot have a final conclusion about that company and they need more investigations and analysis to assess the quality of earnings.

Vincenzo Capizzi, Renato Giovannini mentioned that in the last decade the number of buyback transactions involving listed companies in the Italian equity capital market has experienced a huge growth. However, no clear understanding of this phenomenon has yet been reached, also because of the limited information available on such financial decisions. The purpose of their paper is to check the main hypothesis behind the determinants of share repurchases, analysing the effect of own share buyback announcements specifically on the performance of the listed companies before and after the discontinuity introduced in Italy through the Reform of the financial markets. The first major outcome coming from the empirical analysis deals with the strong incentive played by the reform mentioned above, which introduced stricter corporate governance criteria, leading to a sharp increase in the volume and frequency of share buyback announcements, as well as in the number of companies getting access to this instrument. The analysis also strongly supports the replacement hypothesis theory, which states that buybacks have become a better substitute for dividends as a remuneration policy for shareholders.

Jan O’Boyle stated that performance management is a process that has been used in the for-profit business environment for many years and has had significant benefit for that sector. As the not-for-profit organisation enters new dimensions of competitiveness, increased professionalism and a call for greater transparency, the utility of a performance management approach within the not-for-profit environment and its potential benefit for such an organisation is explored. The application and appropriateness of the balanced scorecard as a measurement tool is analyzed within his article and it becomes apparent that such a tool can have a direct impact on the performance of the modern not-for-profit entity.
Shamharir Abidin, Nurwati A. Ahmad-Zaluki, Desi Ilona provide us with an analysis on the effect of board quality on company performance. Using a sample of 133 companies listed on the Jakarta Stock Exchange in the year 2007, their study specifically examines whether multiple directorships, director shareholding and board independence (i.e. proxies for board quality) can be associated with company financial performance. Their study also investigates the effect of audit committee characteristics (as proxied by audit committee independence and financial expertise) on company performance, while controlling for the effects of leverage and size. With regard to board quality, the results indicate that only board independence is found to be associated with performance, though in the opposite direction. The direction of influence suggests that having too many independent directors (i.e. non-executive) might slow down the business as they might have a lack of detailed knowledge about the company’s business, and are more concerned about their gatekeeper role.

Chen Ying and Sidney Leung examine the effects of director ownership and the proportion of outside directors on firms’ commitment to corporate social responsibility (CSR). Using a sample of 453 Hong Kong listed companies for 2005, they found that there is a non-linear relationship between the level of director ownership and firms’ engagement in CSR behavior. Commitment to CSR first increases as the proportion of director ownership increases up to 50% and then decreases as that proportion of ownership grows higher. Further, the proportion of outside directors on the board exhibits a positive relationship with the level of CSR commitment. These results provide explanations for firms’ commitment to CSR from the corporate governance perspective.
CORPORATE BOARD:
ROLE, DUTIES AND COMPOSITION

Volume 7, Issue 1, 2011

Editorial

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