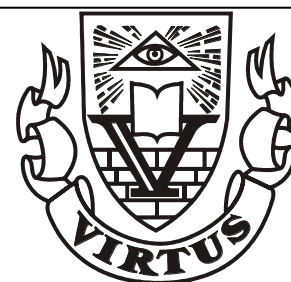


JOURNAL OF GOVERNANCE & REGULATION

VOLUME 6, ISSUE 3, SUMMER 2017

CONTENTS



EDITORIAL 4

SOCIAL CHOICE THEORY AND ITS APPLICATION IN A HUMAN RIGHTS BASED APPROACH TO DEVELOPMENT 7

Deepanshu Mohan

This paper makes an attempt to study the basic formulation of rights, particularly in context of a human rights based approach to development (through a right to development) and exploring its analytical affiliation with the discipline of social choice theory. The social choice approach, as discussed in the paper, has something substantial to offer within the moral, ethical considerations involved in human right(s) formulation by offering a more systematic, non-arbitrary, analytical reasoning basis to the subject. Without getting into the mathematical details of the axioms involved in the theoretical construction of social choice, the author draw a general linkage between the formal reasoning behind social choice theory (i.e. involving a diverse set of individual values and preferences in its social welfare function) and its operational connection with human rights, using freedoms as an integral part of the human rights based approach to development.

THE IMPACT OF HEDGE FUND ACTIVISM ON TARGET FIRM PERFORMANCE, EXECUTIVE COMPENSATION AND EXECUTIVE WEALTH 14

Andrew Carrothers

This paper examines the relationship between hedge fund activism and target firm performance, executive compensation, and executive wealth. It introduces a theoretical framework that describes the activism process as a sequence of discrete decisions. The methodology uses regression analysis on a matched sample based on firm size, industry, and market-to-book ratio. All regressions control for industry and year fixed effects. Schedule 13D Securities and Exchange Commission (SEC) filings are the source for the statistical sample of hedge fund target firms. The authors supplement that data with target firm financial, operating, and share price information from the CRSP-COMPUSTAT merged database. Activist hedge funds target undervalued or underperforming firms with high profitability and cash flows. They do not avoid firms with powerful CEOs. Leverage, executive compensation, pay for performance and CEO turnover increase at target firms after the arrival of the activist hedge fund. Target firm executives' wealth is more sensitive to changes in share price after hedge fund activism events suggesting that the executive team experiences changes to their compensation structure that provides incentive to take action to improve returns to shareholders. The top executives reap rewards for increasing firm value but not for increased risk taking.

AN ANALYSIS OF THE RECENT EUROZONE RECOVERY: IS IT SUSTAINABLE? 29

Ivo Pezzuto

This article addresses the topic of the surprise European Economy recovery in 2017 and its possible implications. The article aims to provide a broad and comprehensive understanding of the triggering factors that have contributed to this unexpected economic revival and to the slow and uneven economic recovery in Europe after the Global Financial Crisis of 2008 and the Great Recession. The article also aims to highlight the potential downside risks related to the still unsolved structural issues that caused the debt overhang and macroeconomic imbalances in Europe in the past decade. Thus, the European Union and the Eurozone seem to be on course for a potential brighter future in the years to come but internal and external risks might still undermine the path to sustained growth, full economic recovery, and stronger integration in the region unless proper political, economic, fiscal, and monetary governance and policies are assured to make the euro area more resilient to future systemic shocks.

DEFINING AND SELECTING INDEPENDENT DIRECTORS

37

Eric Pichet

Drawing from the Enlightened Shareholder Theory that the author first developed in 2011, this theoretical paper with practical and normative ambitions achieves a better definition of independent director, while improving the understanding of the roles he fulfils on boards of directors. The first part defines constructs like firms, Governance system and Corporate governance, offering a clear distinction between the latter two concepts before explaining the four main missions of a board. The second part defines the ideal independent director by outlining the objective qualities that are necessary and adding those subjective aspects that have turned this into a veritable profession. The third part defines the ideal process for selecting independent directors, based on nominating committees that should themselves be independent. It also includes ways of assessing directors who are currently in function, as well as modalities for renewing their mandates. The paper's conclusion presents the Paradox of the Independent Director.

TECHNOLOGICAL DEVELOPMENT IN AUTOMOTIVE INDUSTRY AND TRANSFORMATION IN CORPORATE GOVERNANCE SYSTEM

46

Kazuyuki Shimizu

This study aims to understand how governance change is triggered by cybernetics issues, such as the development of automotive navigation systems in German, Japanese and US automotive industry. Six points are discussed for the central question which are 1) GDP Trends for Manufacturing Activities, 2) Organizational Structure for Supply Chain Management (SCM), 3) Viewpoint related to Internet of Things (IoT) usability, 4) National IoT planning, 5) Definition of IoT, 6) Developing Navigation Systems. At first, the trend in manufacturing activity reveals two different trends: a downward trend in Japan and the USA, and a stable trend in Germany. The author sees several possible reasons for this difference; first, the "smiling curve concept" is applied to visualize the difference. And the organizational structure of SCM is concerned such as "Keiretsu" in Japan, "Konzern" in Germany and the "Anglo-American" model. Then, this paper addresses how the unique organizational features of SCM might react to the technological developments in automotive industry such as autonomous driving, which has shaken the core of the industry. For this gradual change, the IoT technology is necessary. IoT means the progress of certain embedded system, which adds a network function into it. The embedded system for automobile orientation on a map (hardware and software) has to be upgraded with the network function. These technological developments could be influence their corporate governance system. Then, the discussion matrix is formed for the six points, which are discussed in this paper and reveal the boundaries between Japan, Germany and the US. According to Beer, the societal maps (the cybernetic maps) are required for this structural progress to find the right way to go. Finally, the author thinks a dynamic industrial movement is ensured by keeping fair competition, which ensures diversity as well as technological development. It could be the last resort to protect our "Designing Freedom".

SHANGHAI PILOT FREE TRADE ZONE: A TEST FOR RENMINBI INTERNATIONALIZATION?

55

Han Long

China (Shanghai) Pilot Free Trade Zone ("SHFTZ") as well as other Pilot Free Trade Zones established in China carries on the mission to make the test for, inter alia, China's strategic financial reforms and for Renminbi("RMB") internationalization in particular. However, the financial reforms in SHFTZ according to its design and relevant provisions can only provide very limited rather than fully effective test for the reforms of free convertibility, international capital transactions as well as risk hedging needed by RMB internationalization. The aim of the paper is to investigate the test effect that SHFTZ have on the above capital account reforms. It argues that the main reason for the test failure lies in "outward free and inward control" mode designed for SHFTZ which makes it an insulated customs territory, a situation which differs from the circumstances in which a currency gets internationalized. Moreover, SHFTZ runs the risk of evolving into an offshore RMB market set up inside China, a trend China should prevent because it cannot serve the testing missions mentioned above.

A BOOK REVIEW: "INTRODUCING ISLAMIC BANKING IN NEW MARKETS"

67

Yaroslav Mozghovyi

This review covers the book titled "INTRODUCING ISLAMIC BANKING IN NEW MARKETS", which was written by Dr. Yousuf Azim Siddiqi, Associate Vice President of Shari'a Structuring at Emirates Islamic Bank (UAE). The review shortly outlines the structure of the book, pays attention to it's strong sides and issues that will be, by the reviewer's point of view, most interesting for the reader. The reviewers also highlights the issues that the author of the book may cover in the next editions.