

**CORPORATE
OWNERSHIP & CONTROL**

**КОРПОРАТИВНАЯ
СОБСТВЕННОСТЬ И КОНТРОЛЬ**

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EDITORIAL

Dear readers!

This issue of the journal *Corporate Ownership and Control* is devoted to several issues of corporate governance.

Basma Sellami Mezghanni analyzes the impact of the characteristics related to the ownership structure and board of directors, as mechanisms of governance, on the research and development (R&D) intensity. The study carried out on a sample of French companies belonging to the SBF 250 index shows that ownership concentration and duality of chief executive officer and chairman roles have no significant effect on the R & D intensity. The board sizes as well as the proportion of inside directors in the board have a positive and significant effect on R & D intensity. However, the participation of outside directors in capital tends to urge managers to reduce R&D investment level

Avanidhar Subrahmanyam links corporate governance with liquidity, trading activity, and the clientele that holds the firm's stock. On the one hand high liquidity can decrease the quality of a firm's governance because it reduces costs of turning over a stock attracting too many short-term agents who have little vested in good governance. On the other hand, liquidity can attract more sophisticated agents and hence improve the quality of a firm's governance. In our cross-sectional analysis, we find that high liquidity is accompanied by poorer governance and vice versa. Further, increased institutional holdings are surprisingly associated with weaker governance in the 1990s, whereas in later years, they are not significantly related to governance. The proportion of orders transacted by small (large) traders is associated with weaker (stronger) governance, supporting the notion that a clientele consisting of small, unsophisticated investors can weaken the discipline imposed by outside investors on management. Given the known relation between corporate governance and stock returns, our results establish an indirect link between security prices and liquidity as well as trading activity, which goes beyond the direct channel described in Amihud and Mendelson (1986).

Amy E. Hurley-Hanson, Cristina M. Giannantonio examine whether or not the Sarbanes-Oxley Act of 2002 has benefited

corporations for the better. This paper will explore the historical background of Sarbanes-Oxley as well as its purpose and discuss divulge current implications that this legislation imposes on the public corporations that are required to comply.

J. Young aims to identify certain critical issues and challenges for banks of emerging countries to consider when developing an operational risk management framework in order to comply with the Basel requirements.

Pablo Iglesias Rodríguez says that traditionally the Spanish Corporate and Securities Law did not devote much attention to corporate governance issues. This situation started to change after the publication of different corporate governance codes since the year 1997. Although the recommendations of these codes did not have mandatory character, some of them have been incorporated in the mandatory law by the legislator through different instruments. The main objective of this paper is to examine these mechanisms and the purpose of the legislator with each one. The analysis shows that in Spain, the corporate governance recommendations have had a very important role in the creation of corporate governance mandatory rules.

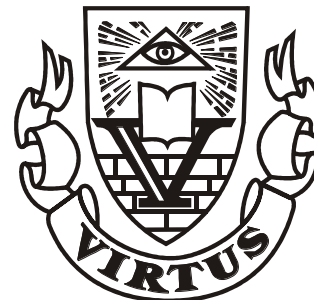
David Ng, Kun Qian, and Adam Dix examine the importance of country-level corruption in explaining the variation of firm-level corporate governance. Analysis of firm-level corporate governance data and country level corruption data on over 400 companies in 26 countries confirms the hypothesis that corruption has a statistically significant negative impact on the quality of a firm's corporate governance. One standard deviation increase in country-level corruption is associated with a 0.5 to 0.7 standard deviation decrease in firm-level corporate governance scores.

Wallace N. Davidson III, Shenghui Tong, Richard Proctor examine why some bidders decide not to hire investment bank advisors in M&A transactions. We build a sample of 181 M&A transactions in which the acquiring firms do not hire investment bank advisors, and compare them with a control sample of 181 M&A transactions in which the acquiring firms hire investment bank advisors. We find that the transaction costs are the primary reason that investment banks are hired as advisors for bidders in M&A transactions. In addition, the information asymmetry and contracting costs are the other two reasons that bidders hire investment banks in M&A transactions.

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