

**CORPORATE
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EDITORIAL

Dear readers!

This issue of the journal *Corporate Ownership and Control* has a very unique feature – a truly international focus of corporate governance research. Our contributors made their utmost to deliver the newest knowledge on corporate governance in many countries such as the USA, Australia, South Africa, Italy, Portugal, China, Brazil, Jordan. We would like to remark that during last five years of our activity we published in *Corporate Ownership and Control* journal papers about corporate governance in 54 countries of the world.

Authors of the papers were very convincing in delivering the conclusions to the editors and reviewers. Almost all papers are the result of team working and this fact makes us more than optimistic regarding the future of research of corporate governance. Academic teams from Australia, Japan, Portugal, Spain, Germany, Brazil and truly international teams from Jordan and Australia, the USA and Taiwan demonstrated ability of academic community to unite their efforts toward establishing and further development of the best standards in corporate governance research. We really enjoyed cooperating with these researchers during the process of reviewing their papers. Team working contributed sufficiently to their ability to be reliable and accurate in revising their papers. Having published in *Corporate Ownership and Control* journal papers of more than 1450 authors since 2003 we were sure about very systematic progress in this sphere of our relationships.

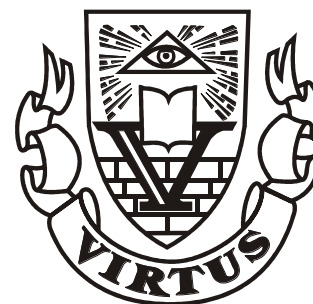
We would like to draw the attention of the reading audience to the issue of progress made by contributors over the last five years. Their papers improved remarkably from the point of view of the research methodology and conceptual consideration. Authors are very effective in mixing practice and theory of corporate governance. Doing so they maximize an outcome from their research. Over last five years we published in *Corporate Ownership and Control* journal papers on various issues of corporate governance, from such widely accepted as corporate ownership to such unique as stock options. Any field of research in corporate governance was developed by our contributors as much as possible.

The previous issue of the journal *Corporate Ownership and Control* was a jubilee issue of our journal – the 20th issue. We outlined a main objective for the next five years - international representation with a focus on corporate governance issues. With this issue of the journal we start the move in that way and invite you to join us.

CORPORATE OWNERSHIP & CONTROL

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Nobuyuki Teshima, Katsushi Suzuki

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Zélia Serrasqueiro, Paulo Maças Nunes

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Rami Zeitun, Gary Tian

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Chia-Wei Chen, J. Barry Lin, Bingsheng Yi

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Leonardo Giani

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Jakobus Daniël (JD) van Heerden, Sonja Saunderson

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Andrea Melis, Silvia Carta

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Bruce Rosser, Jean Canil

We substitute Hall and Murphy's (2002) pay-performance sensitivity metric to detect a firm size effect in CEO stock option grants. After adjusting for small-firm risk aversion and private diversification 'clienteles', we document evidence of a residual small-firm effect impacting on incentive strength

principally through grant size. Given lower small-firm deltas, grant size appears to have been increased by compensation committees to ensure small-firm CEOs are not under-compensated relative to their large-firm counterparts.

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A PRINCIPLES-BASED ANGLO GOVERNANCE SYSTEM IS NOT A SCIENCE BUT AN ART

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Suzanne Young, Vijaya Thyil

This paper through interviewing a number of Australian business executives adds to the academic literature by providing evidence from the field of the important characteristics of the Australian governance system, the drivers of change and the effectiveness of the principles-based approach. It argues that debate needs to move beyond the principles versus rules approach to look at how firms can be provided with more guidance in operationalising some of the principles that appear to be key to governance effectiveness. It concludes that there is a need for a holistic model of governance that is broader than that focusing on the control/legalistic approach; that top management is important in setting and driving the in-firm governance agenda; that the public needs to be informed and educated about governance and its importance; and that disclosure still requires an improvement in quality.

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Joseph Canada, Tanya Benford, Vicky Arnold, Steve G. Sutton

The purpose of this study is to examine how a company's decision to shift corporate ownership and/or corporate control in the face of new corporate governance legislation and regulatory requirements can alter the traditional markets for ownership and control. In order to examine this issue, the paper first develops a typology for predicting the type of organizational restructuring that might occur. This typology incorporates factors from prior research and disentangles the market for ownership from the market for corporate control. The typology is then used as a basis for an in-depth examination of an organization whose corporate structure changed in response to mandated changes in corporate governance. The results provide evidence that corporate governance legislation can potentially induce incumbent management to voluntarily compete in the market for ownership, notwithstanding the associated exposure in the market for managerial control.

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Marina Stefou

The recent banking crises and the famous financial scandals have revealed the need for strong internal control mechanisms. However, due to the inherent limitations of internal control achievement of the financial reporting objectives cannot be absolutely ensured. A great reform in the internal control mechanism was introduced by the controversial Article 404 of Sarbanes-Oxley Act of 2002. This paper lays out the internal control provision described in Sarbanes-Oxley Act, presents the extraterritorial effects on foreign issuers, compares and summarizes overall findings towards ensuring a better financial environment with regard to the international and European corporate governance framework applied.