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**CORPORATE
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Почтовый адрес редакции:

Postal Address:

Почтовый ящик 36
г. Сумы, 40014
Украина

Postal Box 36
Sumy 40014
Ukraine

Тел.: 38-542-611025
Факс: 38-542-611025
эл. почта: alex_kostyuk@mail.ru
alex_kostyuk@virtusinterpress.org
www.virtusinterpress.org

Tel: +380-542-611025
Fax: +380-542-611025
e-mail: alex_kostyuk@mail.ru
alex_kostyuk@virtusinterpress.org
www.virtusinterpress.org

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EDITORIAL

Dear readers!

This issue of the journal comes with the international and multi-conceptual context which is demanded high at the time of crisis.

There is a paper introducing the issue of corporate governance in China. The research of a large sample of listed Chinese companies finds that a significant increase in the extent of related-party disclosure occurred after the introduction of *The Code of Corporate Governance for Listed Companies in China (The Code)*. This suggests that *The Code* issued by the China Securities Regulatory Commission has worked as 'soft' corporate directives as well as insisting on legally enforceable mandatory disclosure requirements.

One more study was to determine whether earnings management in the US corporations is exacerbated in cross-border mergers according to the informational asymmetry hypothesis. The results show that that acquiring firms tend to manage earnings upward prior to stock swap domestic takeovers.

The Russia studies are quite interesting for our readers. Therefore, one of the papers published inquired into the reporting of corporate governance in the extractive industry. For the purpose of this study, four Russian companies in the Oil and Gas sector and four South African gold producers were chosen. Both groups report about their corporate governance on a very high level. The paper concludes that the notion of closed and opaque Russian companies does not hold any longer.

Serbia is one more country which is not disclosed well to the world academic community. So, we are happy to publish a paper on Valeant Pharmaceuticals International, a company which has become famous mostly as an example of problematic and inefficient corporate governance. Changes in the management structure of ICN occurred almost at the same time when corporations, like Enron, WorldCom, Tyco, were dealing with financial scandals caused by problems in corporate governance.

The chapter on a particular issue of corporate governance is devoted today to the issue of board directors. Our authors investigated the educational qualifications and experience of executive and non-executive members of directorial boards in Australia. Authors found significant differences in the relevance of the educational qualifications possessed by executives and non-executives. They also found very low relatedness between the two sets of educational qualifications.

Other authors found that firm complexity in Egypt exerted a positive and significant coefficient on board size when the firm adopts a leadership structure that separates the roles of CEO and chairman. The study provides supportive evidence for the argument that firms are more likely to manipulate their boards' characteristics to attain organizational adaptation at the minimum total cost.

Corporate governance in Japan is considered by our authors in this issue of the journal as the nationally centered. Our reading audience waits for papers on Japan with pleasure. One of the papers explores the initial public offering (IPO) strategy of start-up firms. It is found that among start-up firms, those investing more heavily in research and development (R&D) are more likely to wish to go public. Authors provide evidence that spin-offs and family businesses are less likely to have IPO intentions, and that entrepreneur-specific characteristics affect IPO intentions, with younger and highly educated entrepreneurs tending to desire to go public.

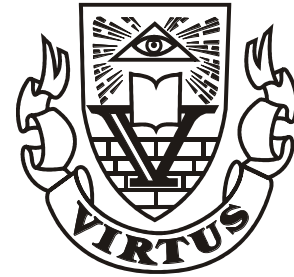
The next paper analyzed the influence of ownership structure on the R&D (research and development) investment of start-up firms. Authors argue that shareholder's type is an important factor of R&D investment under asymmetric information, and that R&D projects, particularly those of start-up firms, strongly depend on the financing from venture capitalists (VCs). Using a unique dataset of Japanese start-up firms, authors find that the shareholding by VCs have, in fact, positively affects the R&D investment.

We hope that you will enjoy reading this issue of the journal!

CORPORATE OWNERSHIP & CONTROL

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Amy Yueh-Fang Ho

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Yuan George Shan, David K Round

Changes in the regulatory environment in China since 2002 with respect to related-party disclosure were a sign that China wished to make its corporate sector more transparent and accountable. It was expected that the introduction of mandatory disclosure might also lead to higher levels of voluntary disclosure than had previously been the case. Our investigation of a large sample of listed Chinese companies finds that a significant increase in the extent of related-party disclosure occurred after the introduction of *The Code of Corporate Governance for Listed Companies in China (The Code)*. This suggests that *The Code* issued by the China Securities Regulatory Commission have worked as 'soft' corporate directives as well as insisting on legally enforceable mandatory disclosure requirements, to effectively improve the extent of corporate disclosure in the sensitive area of related-party transactions.

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Thomas Gstraunthaler, Maria Ulyanova

The influence of local culture on the way business is conducted has been recognized by a whole array of literature (e.g. Hofstede, 2001). Due to the focus on the financial industry throughout the last years, other vital sectors like the extractive industry have been neglected by academic research. This is even more surprising given the fact that the extractive industry is a particularly exciting study object. Its main capital is mining rights to explore and exploit the natural resources in a specific geographic area. Once a corporation decides to start exploitation, the venture is most likely to employ lots of workers out of the communities around the plant. This entangles the companies unavoidably closely with local and national politics. This paper inquires into the reporting of corporate governance in the extractive industry. For the purpose of this study, four Russian companies in the Oil and Gas sector and four South African gold producers were chosen. Besides obvious differences in the mining process, both sectors are vital to the economies of both nations and both are under strong influence of regulations and politics. Both groups report about their corporate governance on a very high level. The paper concludes that the notion of closed and opaque Russian companies does not hold any longer.

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Hugh Grove, Milan Čupić

ICN Pharmaceuticals, Inc. (today Valeant Pharmaceuticals International) was a drug developer and manufacturer, known in the medical field for its development of Ribavirin, an antiviral compound used to treat various viral infections. However, ICN will probably be remembered mostly as an example of problematic and inefficient corporate governance. Changes in the management structure of ICN occurred almost at the same time when corporations, like Enron, WorldCom, Tyco, were dealing with financial scandals caused by problems in corporate governance. Since ICN was not a powerful corporation and found a way to deal with its problems, it was not subject of any big financial scandal. Nevertheless, it is interesting how ICN managed to operate, in some years even successfully, with so many corporate governance problems and how Milan Panic managed to stay at the top of ICN for 42 years, in spite of his numerous expensive law suits, scandals and bad decisions.

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Yixi Ning, Massoud Metghalchi, Jonathan Du

We find that substantial changes in board size, either an increase or a decrease of three or more directors at one time, are permanent movements rather than temporary changes, but the large changes are followed by small reversal in the subsequent years. Empirical evidence shows that all types of directors (inside, affiliated, and independent) are strongly affected by board size expansions (or reductions). Large changes in board size provide a good opportunity for a firm to optimize its board structure by increasing board independence and retiring elder directors. Further analysis indicates that such substantial changes in board size are associated with more frequent board meetings, a higher likelihood of CEO transitions, and firm size expansions. However, we find no evidence that large decreases (or increases) in board size add (or destroy) firm value for shareholders in the long run.

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Peter J Phillips, Julie Cotter

The purpose of this paper is to investigate the educational qualifications and experience of executive and non-executive members of directorial boards in Australia. Inspired by Galbraith's (1967) analysis of the 'technostructure', we examine the educational qualifications of managerial (executive) directors and non-executive directors to assess the extent of divergences in the relevance (to the company's operations) of executives' and non-executives' educational qualifications. In addition, we measure the 'relatedness' of executives' and non-executives' educational qualifications to determine the extent to which the set of educational qualifications of executive directors diverges from that of non-executive directors. We find significant differences in the relevance of the educational qualifications possessed by executives and non-executives. We also find very low relatedness between the two sets of educational qualifications. The advantages of board diversity on the one hand and the disadvantages that may attend potentially sub-optimal technical information flow on the other are discussed.

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Hayam Wahba, Khaled Elsayed

Most prior studies have argued that the relationship between firm complexity and board size is a monotonic one: complex firm tend to have a large board size. Contrary to previous work, it is hypothesized in this study that this relationship is more likely to be moderated by board leadership structure. Using a sample of 92 Egyptian listed firms over the period from 2000 to 2004, we found that firm complexity exerted a positive and significant coefficient on board size when the firm adopts a leadership structure that separates the roles of CEO and chairman. However, the incremental effect of firm complexity on board size was negative and significant for firms that combine the roles of CEO and chairman (i.e., CEO duality). This study provides supportive evidence for the argument that firms are more likely to manipulate their boards' characteristics to attain organizational adaptation at the minimum total cost. Thus, studying of one main characteristic of the board of directors without taking into account the expected effect of other characteristics may lead to inconclusive evidence. This study offers insights to practising managers and policy makers. If practising managers want to maximize the value of their firms, they need to broaden their insight to understand that board characteristics are multidimensional, contingent and dynamic in their nature and differ not only across firms and industry, but also across countries. Moreover, before developing and launching new and additional corporate governance reforms, policy makers need to realize that differences in corporate governance systems cannot be fully explained outside their institutional environments.

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Yuji Honjo, Kenji Kutsuna

This paper explores the initial public offering (IPO) strategy of start-up firms. Using an original survey of start-up firms in the Japanese manufacturing and information service industries, we investigate what factors are associated with the intention to go public. It is found that among start-up firms, those investing more heavily in research and development (R&D) are more likely to wish to go public. Furthermore, we provide evidence that spin-offs and family businesses are less likely to have IPO intentions, and that entrepreneur-specific characteristics affect IPO intentions, with younger and highly educated entrepreneurs tending to desire to go public.

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Hiroyuki Okamuro, Jian Xiong Zhang

We analyze the influence of ownership structure on the R&D (research and development) investment of start-up firms. Previous studies on the relationship between ownership and R&D have targeted on large listed firms and focused on ownership concentration, regardless of the types of large shareholders. We argue that shareholder's type is an important factor of R&D investment under asymmetric information, and that R&D projects, particularly those of start-up firms, strongly depend on the financing from venture capitalists (VCs). Using a unique dataset of Japanese start-up firms, we find that the shareholding by VCs have, in fact, positively affects the R&D investment and that the impact of VCs funding is especially large when the shareholding by the lead VC exceeds 10%.

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