

**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.

Ali Jebli, Nabil Khoury, Marko Savory seek primarily to analyze CEO holdings of stocks and options in their firm as a determinant of the decision to hedge and the intensity of hedging with option-like securities in the gold mining industry. The findings show that CEO holdings play an important role in the choice and intensity of the use of option-like hedging instruments. In addition, results also show that the intensity of option-like instrument use for hedging is diminished when the CEO is also the chairman of the board.

P.W.A. Dayananda considers deriving measures for assessing the benefits to firms as a result of granting executive stock option plans. The metrics developed relate to assessing the expected total earnings of the company attributed to executives due to executive stock option award. The paper derives metrics based on number of shares as well as on total value of assets. The values of these metrics can be used to compare and assess the benefits to the company in awarding stock option grants by comparing the metrics with actual realized changes in total earnings. The research work in the paper complements the empirical research of Murphy (1999) and others who found the pay-performance sensitivities due to executive stock option awards. Illustrations of the metrics are carried out to show their properties and in particular for the firm WAL-MART.

Alain Chevalier, Agustinus Prasetyantoko examine the financing behaviour of listed companies in Indonesia, in order to understand the micro evidence of the economic vulnerability based upon firm-level data. The findings show that there is an indication of the gearing effect phenomenon in which debt-equity ratio decreases with profitability. In such a case, firm would have higher probability not only of failing to make a return to equity holders but also failing to meet interest cost obligations.

Esther Jeffers, Dominique Plihon aim at understanding (I) how the capital structure of French corporations has changed and, through an empirical study, (II) how this change may have impacted their strategy.

Enrico Maria Cervellati, Antonio Carlo Francesco Della Bina, Pierpaolo Pattitoni examine the market reaction to the recommendation changes issued by financial analysts. We study the peculiar case of Italy where analysts have to send their reports to the Stock Exchange Commission and the Stock Exchange the same day they give it to their clients. Reports are available on the Stock Exchange

website. Our dataset includes about 5,200 reports issued on the 117 IPO firms that went public on the Italian Stock market between 1st January 1998 and 31st December 2003. We calculate abnormal returns and abnormal volumes associated with the dissemination of the reports and perform two short-term event studies: the first associated with the “report date”, i.e. the date in which the analyst gives the report to private clients; the second one with regard to the “public access date”, i.e. when the report is freely and publicly available on the Stock Exchange website.

Maria Cristina Ungureanu researches the specific attributes of banks that influence their regulatory and supervisory environment, which, in turn, creates a unique corporate governance framework for the banking industry. The paper emphasises the benefits and limits of regulations and supervision on banks' corporate governance and focuses its empirical results on the European Union countries.

Ai-Chi Hsu, Hsiao-Fen Hsiao set out to examine the relationship between managerial optimism and corporate investment, and demonstrate that firms with valuable investment opportunities tend to invest less than the optimal level; the classic problem of underinvestment. On the other hand, however, firms which do not have valuable investment opportunities often tend to invest more than the optimum level; a problem of overinvestment. They present evidence on the relationship between such investment behavior and managerial optimism. Within those firms that do not have valuable investment opportunities, overinvestment is more likely to occur amongst optimistic managers than non-optimistic managers; conversely, for those firms with valuable investment opportunities, underinvestment is less likely amongst optimistic managers than non-optimistic managers.

Mervi Niskanen investigates the effect that bank equity claims in borrowing firms have on the availability of finance to the firm. The results suggest that allowing banks to hold equity claims in borrowing firms enhance debt availability to the firm. The results are consistent with arguments that equity claims may be helpful in transferring the benefits of an ongoing relationships to the borrowers, and thus eventually also enhance investment efficiency in the economy as a whole. The results, however, also suggest that very small or very large bank equity claims in borrowing firms do not have this impact. The results suggest that allowing banks to hold equity in borrowing firms may have some advantages. Policymakers should take this into account when reconsidering or creating regulations in this area.

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