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Introduction to Special Issue on International Corporate Governance
Paul Malatesta and John McConnell, Co-Editors

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Introduction to Special Issue on International Corporate Governance

In recent years, the field of finance has become increasingly cosmopolitan in every respect. Business school finance departments draw their students and faculty from all regions of the world and, in most cases, national boundaries pose but small obstacles to the conduct of our affairs. International trade grows, the world's financial markets become more highly integrated, and a growing body of research in finance addresses issues that are cross-border in scope.

This issue of the Journal of Financial and Quantitative Analysis brings together recent empirical and theoretical research in the area of international corporate governance. In their introductory survey paper, Denis and McConnell define corporate governance "…as the set of mechanisms—both institutional and market-based—that induce self-interested controllers of a company (those who make decisions regarding how the company will be operated) to make decisions that maximize the value of the company to its owners (the suppliers of capital)." While the papers in this issue explore disparate aspects of this broadly defined topic, they are linked in that all take on the topic from a cross-border perspective.

Denis and McConnell categorize international corporate governance into two generations. The first generation focuses on a single non-U.S. country and extends prior U.S.-based studies. The second generation is cross-border and focuses on the differences in governance across several countries. The papers in this issue fall comfortably within that second generation of research.

Perotti and von Thadden construct a theoretical model of strategic competition in which firms may chose transparent or opaque governance structures. An implication of the model is that financial integration and increased trading liquidity in traditionally bank-dominated markets, such as European nations and Japan, induce convergence toward an Anglo-Saxon market-oriented financial system with increased transparency. Dahlquist, Pinkowitz, Stulz, and Williamson explore empirically whether differences in corporate governance environments across countries can help to explain why investors exhibit a home bias in their financial portfolios. They answer in the affirmative.

Pinegar and Ravichandran observe that a number of prior studies document that, within a given country, the prices of voting shares trade at a premium to non-voting shares, and that the differences in the voting premia across countries apparently depend upon differences in the level of shareholder protection. They extend this literature by examining the voting discount for Mexican ADRs that are cross-border listed in the U.S.

Gibson and Lins study 8 and 18 emerging markets, respectively. Gibson reports on the connection between firm performance, CEO turnover, and ownership structure. Lins examines the relationship between firm value and share ownership across different legal regimes. Fauver, Houston, and Naranjo investigate firms in developed as well as emerging markets and find that the value of corporate diversification depends upon the financial, regulatory, and legal environments.

The studies by Dittmar, Mahrt-Smith, and Servaes, Esty and Megginson, and Giannetti consider the effects of different national legal regimes on corporate investment and financing activities. Dittmar, et al. find that the nature of the regime affects corporate cash holdings. Esty and Megginson find that it affects the structure of project loan syndicates. Giannetti's work reinforces the conclusion that this aspect of the corporate governance environment has broad implications. She reports that the legal regime and extent of investor protection in a country significantly affects firms' capital structure choices.

The papers in this issue exemplify the best recent work in the area of international corporate governance. We hope that you enjoy reading them, as we did.

Paul H. Malatesta and John J. McConnell, Co-Editors