UNIVERSITEIT VAN AMSTERDAM

Amsterdam Center for Law & Economics

The Amsterdam Center for Law & Economics (ACLE) and the Finance Group at the University of Amsterdam organize in cooperation with the European Corporate Governance Institute (ECGI) and the Journal of Financial Intermediation, the Symposium on

The Ownership of the Modern Corporation: Economic and Legal Perspectives on Private versus Publicly-listed Corporations

September 16-17, 2005

PROGRAM

(version: September 5, 2005)

Venue:

NH Zandvoort Hotel
Burgemeester van Alphenstraat 63
Zandvoort, The Netherlands

Sponsors
Amsterdam Center for Corporate Finance (ACCF)
Ministry of Economic Affairs
Van Doorne

Organizers
Arnoud W.A. Boot
Joseph McCahery

Accf
Amsterdam Center for Corporate Finance

Ministerie van Economische Zaken

VanDoorne

Friday, September 16, 2005

09.15 Welcome

Session I Ownership Structure and Private Benefits

Chair: Anjan Thakor (Washington University)

09.30-10.30 ***A Contrarian View of Ownership Concentration in the United States and Around the World***
Clifford Holderness (Boston College)

Abstract

I offer evidence for the first time on the extent of large shareholders at a representative sample of U.S. firms. 93% of these firms have blockholders who in aggregate own 35% of the common stock. I compare these to firms in other countries and find that by some measures U.S. ownership is more concentrated. This finding and other evidence presented are inconsistent with the theory that concentrated ownership is a response to weak legal protections for shareholders. The reason seems to be that large shareholders are typically managers, not monitors. This is consistent with the essence of private property.

Discussant: Joseph McCahery (University of Amsterdam)

10.30-11.30 ***Ownership Structure, Banks, and Private Benefits of Control***
Paolo Volpin (London Business School)

Abstract

This paper proposes a simple model of the choice of the optimal bank debt concentration in closely- and widely-held companies. Concentrated bank debt (that is, fewer bank relations) generates more monitoring, which reduces the private benefits of control. Hence, in closely-held companies (where there is no takeover threat) the manager prefers as little monitoring as possible. If instead the company is widely held, the manager prefers more monitoring to reduce the takeover threat. The optimal ownership structure is then derived to solve the tradeoff between the benefits of bank monitoring and the value of the private benefits of control. Cross-country evidence is produced consistent with the empirical prediction of a negative correlation between shareholder protection and number of bank relations.

Discussant: Ernst-Ludwig von Thadden (University of Mannheim)

11.30-12.00 Coffee

12.00-13.00 ***The Origins of the German Corporation - Finance, Ownership and Control***
Julian Franks (London Business School)
Colin Mayer (University of Oxford)
Hannes Wagner (University of Oxford)

Abstract

The ownership of German corporations is quite different today from that of Anglo-American firms. How did this come about? To what extent is it attributable to regulation? A specially constructed data set on financing and ownership of German corporations from the end of the 19th century reveals that, as in the UK, there was a high degree of activity on German stock markets with firms issuing equity in preference to borrowing from banks, and insider and family ownership declining rapidly. However, unlike in the UK, other companies and banks emerged as the main holders of equity, with banks holding shares as custodians of other investors rather than on their own account. The changing pattern of ownership concentration was therefore very different from that of the UK. According to existing measures, investor protection was equally weak in Germany and the UK at the beginning of the 20th century and cannot therefore explain the differences between the two countries. However, what investor protection did was to reinforce the importance of banks in the new issuance process.

Discussant: Josef Zechner (University of Vienna)

13.00-14.30 Lunch

Session II Financial Contracting

Chair: Ronen Israel (Interdisciplinary Center Herzliya)

14.30-15.30 ***How do Legal Differences and Experiences Affect Financial Contracts***?
Steven Kaplan (University of Chicago)
Frederic Martel (University of Lausanne)
Per Strömberg (University of Chicago)

Abstract

We analyze venture capital (VC) investments in twenty-three non-U.S. countries and compare them to U.S. VC investments. We describe how the contracts allocate cash flow, board, liquidation, and other control rights. In univariate analyses, contracts differ across legal regimes. However, more experienced VCs implement U.S. style contracts regardless of legal regime. In most specifications, legal regime becomes insignificant controlling for VC experience. VCs who use U.S. style contracts fail

significantly less often. The results are consistent with U.S. style contracts being efficient across a wide range of legal regimes.

Discussant: Manju Puri (Duke University)

15.30-16.00 Tea

16.00-17.00 ***Why Do Public Firms Issue Private and Public Securities?***
Armando Gomes (University of Pennsylvania)
Gordon Phillips (University of Maryland)

Abstract

We examine a comprehensive set of private and public security issuance decisions by publicly traded companies. We study private and public issues of debt, convertibles and common equity securities. The market for public firms issuing private securities is large. Of the over 13,000 issues we examine, more than half are in the private market. We find that asymmetric information and moral hazard problems play a large role in the public versus private market choice and the security type choice. Our findings show that asymmetric information impacts security choice in a particular pattern: Conditional on issuing in the public market we find a pecking order of security issuance holds, firms with higher measures of asymmetric information are less likely to issue equity. We find a reversal of this pecking order in the private market, firms with higher measures of asymmetric information are more likely to issue equity. Second, we find risk and investment opportunities are important in determining which security type a firm issues. Firms with high risk, low profitability and good investment opportunities are more likely to choose equity and convertibles and to issue privately. The results support models of security issuance where private securities give investors more incentives to produce information and also to monitor the firm.

Discussant: Alan Morrison (University of Oxford)

18.00 Transport to Amsterdam

18.30 Drinks followed by tour and dinner, hosted by Van Doorne

Saturday, September 17, 2005

Session III From Public to Private and Vice Versa

Chair: Stuart Greenbaum (Washington University)

09.30-10.30 ***Market Liquidity, Managerial Autonomy and the Push for Privacy: Why do Publicly-Listed Firms Delist?***

Arnoud Boot (University of Amsterdam)
Radhakrishnan Gopalan (University of Michigan)
Anjan Thakor (Washington University)

Abstract

We analyze a publicly-traded firm's decision to stay public or go private, and show that both the advantage and the disadvantage of public ownership relative to private ownership lie in the liquidity of public ownership. With public ownership, shareholders benefit from liquidity but the shareholder base of a public firm is subject to stochastic shocks as market liquidity facilitates active trading. This exposes management to uncertainty regarding who the future shareholders will be and how much they will intervene in future management decisions, which curtails managerial incentives. By contrast, because of its illiquidity, private ownership provides a stable shareholder base and improves these incentives. Thus, capital market liquidity, while being a principal advantage of public ownership, also has a surprising “dark side” that discourages public ownership. This allows us to extract predictions about the effects of investor participation and stock price level and volatility on the public firm's incentives to go private, thereby providing a link between *investor participation* and *firm participation* in public markets. Lesser investor participation induces lower and more volatile stock prices, encouraging public firms to go private, whereas greater investor participation encourages younger firms to go public. We show that this has implications for the desirability of IPO underpricing.

Discussant: Rafael Repullo (CEMFI)

10.30-11.30 ***Moving from Private to Public Ownership: Selling out to Public Firms versus Initial Public Offerings***

Anette Poulsen (University of Georgia)
Mike Stegemoller (Texas Tech University)

Abstract

We study the movement of assets from private to public ownership through two alternative means: the acquisition of private companies by firms that are public (sell-outs) or by initial public share offerings (IPOs). We use a matched sample to control for many of the industry- and

economy-wide variables that other researchers have found to be important in the decision to go public. Our results suggest that firms will move to public ownership through an IPO when they have greater growth opportunities. Sell-outs seem to be preferred when managers are liquidating more of the firm and when they face financial constraints.

Discussant: Luc Renneboog (Tilburg University)

11.30-12.00 Coffee

12.00-13.00 ***Role of Venture Capital Backing in Initial Public Offerings: Certification, Screening or Market Power***

Thomas Chemmanur (Boston College)
Elena Loutskina (Boston College)

Abstract

We empirically distinguish between three possible roles of venture backing in IPOs: "certification," where venture-backed IPOs are priced closer to intrinsic firm value than non-venture backed IPOs due to venture capitalists' concern for their reputation; "screening and monitoring," where VCs are able to either select better quality firms to back (screening), or help create such higher quality firms by adding value to them (monitoring) in the pre-IPO stage; and "market power," where venture capitalists attract a greater number and higher quality of market participants such as underwriters, institutional investors, and analysts to an IPO, thus obtaining a higher valuation for the IPOs of firms backed by them. We argue that IPO underpricing is *not* the most appropriate measure to evaluate the role of venture backing in IPOs. Instead, we compare four sets of more direct measures between VC backed and non-VC backed (and between high-reputation VC backed and low-reputation VC backed) IPOs. The evidence strongly rejects the certification hypothesis, while finding considerable support for the market power hypothesis and some support for the screening and monitoring hypothesis. We find that venture capitalists attract higher quality market participants to the IPOs of firms backed by them, thus increasing the heterogeneity in investor beliefs about these firms, resulting in higher valuations for the equity of these firms (both in the IPO and in the secondary market immediately following the IPO).

Discussant: Armin Schwienbacher (University of Amsterdam)

13.00-14.30 Lunch

Session IV Corporate Governance and Control

Chair: Bruno Biais (Toulouse University)

14.30-15.30 ***Board Structures Around the World: An Experimental Investigation***

Ann Gillette (Kennesaw State University)
Thomas Noe (Tulane University)
Michael Rebello (Tulane University)

Abstract

We model and experimentally examine the board structure- performance relationship. We examine single-tiered boards, two-tiered boards, insider-controlled boards and outsider-controlled boards. We find that even insider-controlled boards frequently adopt institutionally preferred rather than self-interested policies. Two-tiered boards adopt in institutionally preferred policies more frequently, but tend to destroy value by being too conservative, frequently rejecting good projects. Outsider-controlled single-tiered boards, both when they have multiple insiders and only a single insider, adopt institutionally preferred policies most frequently. In those board designs signs where the efficient Nash equilibrium produces strictly higher payoffs to all agents than the coalition-proof of equilibria, agents tend to select the efficient Nash equilibria.

Discussant: Anjolein Schmeits (New York University)

15.30-16.30 ***External Governance and Debt Agency Costs of Family Firms,***

Andrew Ellul (Indiana University)
Levent Guntay (Indiana University)
Ugur Lel (Indiana University)

Abstract

In this paper we investigate the impact of the founding family on the firm’s debt agency costs under different investor protection environments. We argue that the impact can go either way and what matters is the investor protection environment that determines who monitors the family. On one hand, founding families - through their undiversified investments, inter-generation presence, and reputation concerns - can mitigate debt agency costs because their incentives are aligned with those of debtholders. On the other hand, families – through their unique power position within the firm that can lead to expropriation concerns – can end up exacerbating debt agency costs. Using international bond issues from 1988 to 2002 for companies originating from 45 different countries we find evidence that family firms’ debt costs vary with investors’ protection. Family firms originating from low investor protection environments suffer from higher debt costs, while family firms originating from high investor protection environments benefit from lower debt costs. These results are confirmed by an out-of-sample test that uses East Asian firms and are also

robust to endogeneity issues and to the inclusion of various measures of internal and external governance mechanisms.

Discussant: Zsuzsanna Fluck (Michigan State University)

17.30 Cocktails

18.30 Dinner

Program Committee:
Lucian Bebchuk (Harvard University)
Patrick Bolton (Princeton University)
Ernst-Ludwig von Thadden (University of Mannheim)
Anjan Thakor (Washington University)
Luigi Zingales (University of Chicago)
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