Essays on Empirical Corporate Finance

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The Market-Wide effect of Mandatory Financial Disclosure Regulation on the cash policy of private firms

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Abstract

This paper examines how the intensity of the Mandatory Financial Disclosure Regulation at the country-industry level can affect the precautionary cash policy of private firms. Cash holding provides a downside protection against the cash-shortfall risk. Mandated disclosures of industry-peers generate an industry-wide reduction on the cost of capital, and through this, reduce the cost of holding cash for precautionary reasons. At the same time, the set of mandated disclosures constitutes a source of learning about industry economic trends, increasing the firms' accuracy in their cash-shortfall risk assessments. The lower uncertainty generated by the set of mandated disclosure reduces the incentive for holding precautionary cash. Using firm-size based mandatory disclosure regulations for private firms of 12 European countries, I test which effect predominates. I find that private firms hold less cash when they operate in industries with a higher proportion of firms mandated to disclose full financial statements and that this negative relation is stronger in industries with a higher cash-shortfall risk. In the within-industry analysis, I find that the cash reduction is stronger in younger and more labor-intensive competitors, suggesting that these types of firm benefit more from the uncertainty reduction generated by peers' mandated disclosures due to their relative shorter business experience and higher adjustment cost. Overall, the findings in this paper contribute to the open debate regarding the role of Mandatory Financial Disclosure Regulation of private firms in the socially desirable level of disclosure transparency.

Keywords: Financial disclosure regulation; Cash policy; Risk management; Private firms.

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MULTIFAMILY FIRMS AND FIRM PERFORMANCE

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Abstract

In this study, we attempt to refine the extant literature in the area of family firm performance by addressing the following research question: How does the presence of multiple unrelated families controlling the family firm affect firm performance? Drawing on agency and behavioral agency theories, we argue that multifamily firms outperform single family firms by two reasons: First, multifamily firm are better equipped to alleviate agency costs between principals and agents because they hold a more efficient internal labor market with candidates from several families who compete for leadership positions. Secondly, multifamily firms mitigate conflicts between majority and minority owners given mutual monitoring among families. We also suggest that a balanced distribution of ownership among unrelated families facilitates the monitoring process among families, which improves firm performance. However, the focal relationship follows an inverted U shape depending on the number of unrelated families controlling the firm since a greater number of families increases coordination costs, reduces the effectiveness of mutual monitoring, and generates corporate paralysis. We test these hypotheses using a sample of publicly-listed Chilean firms mandated to disclose controllers' identity. Unlike previous literature, our evidence suggests that some degree of control distribution could boost performance in family-controlled firms.

DEATH AND TAXES: HOW DO INHERITANCE TAX AND SHAREHOLDER PROTECTION AFFECT THE MARKET VALUE OF FAMILY FIRMS?

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Abstract

We examine the role of inheritance taxes and shareholder protection laws on family firm market value. We argue that high inheritance taxes maximize family firm value because responding to the liquidity event generated by the passing away of the patriarch will align the objectives of family and non-family shareholders. However, this positive effect depends upon the rules protecting minority shareholders. In regimes with strong shareholder protection, the goals of different investors will already be aligned and thus inheritance taxes will become redundant with respect to increasing family firm value, suggesting that these institutions substitute for one another.

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