

OWNERSHIP - MONITORING OR EXPROPRIATION: EVIDENCE FROM DIVESTED EUROPEAN FIRMS

Enzo Peruffo

Department of Economics and Business

LUISS Guido Carli

Viale Romania 32 00197 Rome, Italy

E-mail: eperuffo@luiss.it

Office: +390685225435

Raffaele Oriani

Department of Economics and Business

LUISS Guido Carli

Viale Romania 32 00197 Rome, Italy

E-mail: roriani@luiss.it

Office: +390685225908

Maria Goranova

Sheldon B. Lubar School of Business

University of Wisconsin Milwaukee

Milwaukee, WI 53201

E-mail: goranova@uwm.edu

Office: (414) 229-5429

ABSTRACT

We examine the impact of large owners in a sample of divestitures spanning 13 European countries. We develop and test a theoretical model that helps us delineate expectations whether the impact of the largest owner is beneficial through constraining managerial self-serving behavior or detrimental through ownership expropriation. Our findings indicate that when the largest owner's ratio of cash flow rights in the divested unit relative to cash flow rights in the parent is higher, the impact is beneficial on the divested unit performance. Monitoring by other large owners and debtholders also affects the expropriation opportunities for the largest owner, and thus the performance of the divested unit. In addition to contributing to the debate on large owners impact on firm performance, our study contributes to the divestiture literature by addressing the gap of research on divested units.

Keywords: *Large owners, Monitoring, Expropriation, Divestitures, Divested unit performance*

INTRODUCTION

Are large shareholders beneficial monitors or potential expropriators? This question underscores the debate on shareholder empowerment; while some scholars perceive shareholder empowerment as a solution to the agency problem of managerial opportunism (Bebchuk, 2005; Gillan & Starks, 2000), others argue that it would just increase problems of shareholder opportunism (Anabtawi & Stout, 2008; Lan & Heracleous, 2010). This divide was illustrated in practice by the proxy access rule and its litigation. SEC and institutional investors (CII, 2011) argued the rule will improve the accountability of chief executives to corporate shareholders, and thus will benefit all shareholders. The Business Roundtable and the U.S. Chamber of Commerce opposed the rule on the grounds that benefits for some large shareholders will be realized at the expense of other shareholders.

The support for further shareholder empowerment is rooted in agency theory, first formulated in the 1970s (e.g., Alchian & Demsetz, 1972; Jensen & Meckling, 1976; Ross, 1973). The agency theory framework posits that shareholders (principals) should encourage managers (agents) to act in the interests of shareholders, either by monitoring managers or by aligning executive compensation with shareholders interests (Beatty & Zajac, 1994; Jensen & Meckling, 1976; Tosi, Katz, & Gomez-Mejia 1997). Yet, not all shareholders have incentives to monitor. Because monitoring benefits accrue to all shareholders, regardless of who incurs the costs, smaller investors may prefer to free-ride rather than to invest in costly monitoring (Gillan & Starks, 2000; Shleifer & Vishny, 1986). The free-riding is especially problematic when shareholdings are dispersed, thus leading to the classic problem of separation of ownership and control (Berle & Means, 1932), where ownership dispersion accounts for shareholders' insufficient engagement and weak monitoring. Hoskisson and colleagues (2002: 698) suggested

that ownership concentration is “an important tool to curtail managers’ propensity to pursue inefficient strategies” Prior research has found that monitoring by large shareholders benefits firm valuation (Thomsen & Pedersen, 2000) and productivity (Hill & Snell, 1989), and also affects corporate strategy (Amihud & Lev, 1981) and executive compensation (Hartzell & Starks, 2003). Furthermore, Demsetz (1986) calls shareholder monitoring more “robust and continuous” than the disciplining effect of the market for corporate control.

The “beneficial shareholder monitoring” hypothesis, however, has been questioned by legal scholars, who argue that shareholders are “vulnerable to the same forces of greed and self-interest widely understood to face corporate officers and directors” (Anabtawi & Stout (2008: p. 1256). In general shareholders do not owe fiduciary duty to the firm (Karmel, 2004; Lan & Heracleous, 2010), so they may prefer to pursue their self-interests and strive to influence corporate policies even if benefits to them are outweighed by the costs to remaining shareholders. Ownership expropriation, or principal-principal problems, have been studied extensively by scholars as they doo larger than agency problems in markets with weaker minority-shareholder protections (La Porta, Lopez-de-Silanes, & Shleifer, 1999). Examples of large owners benefiting at the expense of small owners through the use of pyramid structures, cross-ownership, and/or dual-class equity mechanisms abound (Bebchuk, Kraakman, & Triantis, 2000; Chang, 2003; Hoskisson, Johnson, Tihanyi, & White, 2005; Peng & Jiang, 2010). Opportunistic owners, furthermore, could endanger firm survival by pursuing excessive risks (Bratton, 2007), leaving the company with “only unattractive, low revenue products” (Moschieri, 2010), or tunneling the firm’s resources (e.g., Bertrand, Mehta, & Mullainathan, 2002; Claessens, Djankov, Fan, & Lang, 2002).

Dharwadkar and colleagues (2000) argue that whether large owners' impact on the focal firm is beneficial or detrimental depends on the firm's governance structures and the external governance climate. In the context of weak governance and weak legal protection of minority shareholders, instead of solution to the principal-agent problem, large owners may instead be the problem; principal-principal problem here refers to the propensity of large influential owners to derive benefits at the expense of other shareholders. Corporate governance researchers studying emerging markets have long been cognizant of principal-principal conflicts wherein some large owners extract the benefits of control at the expense of minority owners (Bebchuk, *et al.* 2000; Chang, 2003; Dharwadkar *et al.*, 2000; Hoskisson *et al.*, 2005). Yet, as our discussion of the shareholder empowerment debate indicates, the tensions between beneficial or self-serving impact of large owners has transcended emerging markets and is, instead debated in contexts that offer strong protection of minority shareholder rights, such as the United States.

In such a context, Atanasov and colleagues (2010) found evidence of expropriation in divested units; both divested units where the parent retained a majority ownership stake or where the parent divested its entire ownership stake, performed better than divested units where the parent retained a sizeable, but not majority ownership stake.

If legal protection cannot deter principal-principal problems, then how can we distinguish when large shareholders are likely to benefit other firms' shareholders by monitoring corporate managers and constraining agency problems, and when they are likely to instead, expropriate other owners and increase principal problems by pursuing self-serving actions or pressuring managers to undertake the preferred by them course of action. To answer this question, we use insights from the literature on corporate illegality and fraud (Baucus 1994; Cressey, 1950; 1953). Building on both streams of governance literature - on one side beneficial monitoring impact of

owners, and on the other expropriating potential of large owners, we develop a theoretical model that incorporate both the incentives of large owners to expropriate other firm' shareholders and their ability to do so. Our contribution to prior literature is threefold. First, we contribute to the expropriation – beneficial monitoring debate by discussing the impact of large owners on value creation at the firm level vs. value transfer from other organizational shareholders or stakeholders. We contribute to prior research by delineating the boundary conditions under which large owners could be expected ex ante to have beneficial or detrimental impact on firm performance. Second, prior research on large owners has been dichotomized between markets with well developed shareholder protection and emergent markets. By studying the divested units of European firms, our research is positioned in between these polar extremes. Finally, despite the growing importance of corporate divestitures in the global markets, there is a dearth of empirical research that investigates the performance of divested units (Moschieri, 2010). In this paper we address the need for research on divestiture-performance relationship, identified by Lee & Madhavan's (2010) meta-analysis.

HYPOTHESES

Prior research on corporate divestitures has focused primarily on the divesting firms, with the general expectation that divestitures benefit the performance of the divesting parent (Brauer, 2006; Johnson 1996; Lee & Madhavan, 2010; Peruffo, Perri, Gentili, 2013). The situation, however, is not so clear with regards to the divested unit. Research on mergers and acquisitions (M&As) provides equivocal results for the performance of the new parents. As many as two-thirds of these M&As fail to create value for the acquiring firms' shareholders (Ravenscraft & Scherer, 1987), who typically see insignificant or even negative returns from M&As (Datta,

Pinches & Narayanan, 1992; Hitt, Ireland & Harrison, 2001; King, Dalton, Daily & Colvin, 2004). A significant number of acquisitions also end up being divested subsequently (Bergh, 1997; Hoskisson, Johnson, & Moesel, 1994; Kaplan & Weisbach, 1992). These results, however, do not distinguish between acquisitions of subsidiaries or entire firms. Perhaps due to data availability on the performance of divested units, there is relative lack of research that investigates their performance. A notable exception is Moschieri's (2010) inductive research based on multiple case studies. Her findings, however, underscore the complexities of divestiture transactions and the performance of divested units. Her study provides examples of both parenting companies that reap all benefits from the divestiture by transferring "only unattractive, low revenue products" to the divested unit, and ones that are ultimately worse off after the transaction, with the divested unit attracting "the best engineers and managers" of the firm. It is not clear, therefore, for whom the divestiture transactions create value.

To shed light on this issue we examine the ownership structure of the divesting parent and the divested unit, and in particular the role of the largest owner. Recent research on ownership has argued that shareholders have different and at times even conflicting interests (Hoskisson, Hitt, Johnson & Grossman, 2002; Tihanyi, Johnson, Hoskisson & Hitt, 2003; Connelly, Hoskisson, Tihanyi & Certo, 2010). Whether the heterogeneity of shareholder interests could potentially lead to expropriation of some shareholders or stakeholders by large, influential owners, is a hotly debated subject. Misalignment of interests between the shareholders may open the door for 'rob Paul to pay Peter' scenarios, argue Anabtawi and Stout (2008:32) and will shift the problems of managerial self-serving to shareholder self-serving (Lan & Heracleous, 2010; Stout, 2007). Others, however, argue that expropriation of shareholders is unlikely (Bebchuk and Jackson, 2011), and that instead large owners will benefit firm performance by constraining

corporate chiefs ability to serve their own self-interests at the expense of firm shareholders and to (Bebchuk, 2005; 2007; Dimitrov & Jain, 2011). While views on large owners have been historically polarized in the contexts of developed and emergent markets, this debate has recently escalated by escaping the market context confines.

The beneficial vs. expropriating role of large owners, is a particularly relevant issue for the divestiture context, where remaining linkages between parent company and divested unit may present both monitoring and expropriating opportunities. For example, following the divestiture of Iridium by Motorola, where Motorola retained 18% of Iridium equity, Iridium went bankrupt after Motorola approximately \$5 billion for the maintenance of satellite network. Iridium's minority owners contended in a lawsuit that Iridium overpaid for the services bought from Motorola (Atanassov, Boone, & Haushalter, 2010). In a different example, following the equity carve out of Body Drama, its divesting parent was accused of setting the prices and driving the costs of Body Drama. As a result in the 3 years following the IPO, the divested unit selling, general and administrative expenses increased ten times faster than its revenues, ultimately leading to the subsidiary repurchase by the parent for a third of its IPO price (Atanasov *et al.*, 2010).

To address the question whether large owners could impact positively firm performance by constraining agency problems, or negatively by increasing principal problems, we turn to the literature on corporate fraud and illegality. Baucus (1994) identifies three pillars for corporate illegal behavior – opportunity or pressures to commit fraud, incentives or motivation for fraudulent behavior and the rationalization or the moral character of the engaged party. We proceed to discuss those in turn below.

Expropriation incentives. Euphemistically labeled “private benefits of control” (Hart, 1995; Zingales, 1994), the problem of self-dealing by large owners overshadows the agency problem in many global contexts. (Jiang, Lee, & Yue, 2010). Prior research has found that an ownership blocks of as little as 20% can be sufficient for an owner to exercise complete control over a company (La Porta, Lopez-De-Silanes, Shleifer, & Vishny, 1998; La Porta, Lopez-De-Silanes, & Shleifer, 1999). In the context of divestitures, when large owners of the parenting companies retain ownership stake in the divested units, they may be better positioned relative to other shareholders to enjoy informational advantages, and in turn, may exploit value-creating opportunities for themselves by selective pricing, asset transfers, or transferring resources between the entities. In a cross-sectional study of ownership, Schnatterly, Shaw & Jennings (2008) for example, report that the largest owner holds an information advantage relative to other owners.

Figure 1 presents our theoretical model that incorporates both the expropriation incentives and opportunities, and their relationship to the performance of the divested unit. In the context of divestitures, we examine the ownership profiles of both the parent and the divested unit. There are several scenarios with respect to the distribution of the cash flow rights (CFRs) for the largest owner of the divesting company (e.g. Chen & Guo, 2005; Brauer, 2006; Bergh, Johnson & Dewitt, 2007). First, in the case of spin offs, the divested unit replicates the ownership structure of the divesting parent, thus the largest owner has the same percentage stake in the divested unit as in the divested parent. When the CFRs of the owner are consistent across the chain of firms, he or she has no financial incentives to prefer value transfer to one or another unit. In the completely opposite scenario – sell off, all of the shares in the divested unit are sold to a third party or consortium, with the shareholders of the divesting parents retaining no

ownership in the unit. Unlike the previous scenario, where ability to expropriate is present, but incentives are lacking, in this case since the unit is under completely different ownership structure, neither the parent nor its large owner are likely to be in position to expropriate the unit. In the third case, partial sell off or equity carve out, the ownership structure of the divested unit is more complex, with some retention of stake by the divesting parent, some new shareholders and in some cases shareholders of the divesting unit acquiring stakes in the divested unit.

A large owner with the same cash flow stakes in both parent and divested unit would not benefit from third-party related transactions, asset pricing, inflated charges for services, or other expropriating techniques. On the other hand, an owner that has higher cash flow stake in the divested unit than in the parent would be very sensitive to transfer of wealth from the divested unit to the parent, in which case we expect that the impact of the owner on the divested unit will be one of beneficial monitoring. To the extent that such an owner has influence over the parenting company, however, he or she may prefer to transfer resources and wealth to the divested unit. An example is provided by Moschieri (2010) who describes a divestiture case where the divested unit got its pick of resources from the parenting company.

An alternative scenario, however, is when the large owner CFRs in the parenting company largely exceed his or her CFRs at the divested unit. In such cases, the large owner may benefit from propping up the unit prior to divestiture, transferring only inferior resources to the unit, or engaging in asset pricing techniques that transfer value from the divested unit to the parent. We therefore expect that the higher the cash flow rights at the parent relative to the divested unit, the more the large owner will prefer value transfer to the parent, and thus will be more likely to be negatively associated with the divested unit performance.

Hypothesis 1: Divested unit performance is positively related to the large shareholder's ratio of CFRs of at the divested unit to the CFRs at the divesting parent.

Expropriation opportunity – monitoring by other large owners. Largest owner may have the incentives but not the power to expropriate other shareholders. Other large owners may constrain the propensity for self-dealing of the largest owner. Because of the magnitude of their equity stakes and penalties associated with market exit, large owners are more likely to hold their shares and thus have greater incentive to monitor their investments (Johnson & Greening, 1999). To the extent that large owners focus on long-term firm success, they are in a good position to curb managerial myopia by encouraging managers to pursue long-term strategies (Bushee, 1998). Thus, only shareholders with large positions are likely to obtain enough return on their monitoring investment to justify the costs (Gillan & Starks, 2007; Useem, 1996). Therefore, large owners are more likely to assume monitoring costs because they have more to gain from such efforts than do smaller investors.

We extend this line of reasoning by arguing that large owners have incentives to monitor not only corporate managers but also other owners. Following Jara-Bertin, Lopez-Iturriaga & Lopez-de-Foronda (2008), shareholders' power are mainly related to the proportion of shares owned and how they influence managers' decisions through the interactions with the other owners. When the position of the largest owner is not so dominant, they need the collaboration of other shareholders to influence corporate strategy. Alternatively, other large owners may contest and constrain the ability of the largest owner to transfer value between the parent and the divested unit. The ability of other owners to challenge the largest owner decisions (Maury & Pajuste, 2005), may render monitoring by them beneficial to the divested unit. Such monitoring

by other large shareholders can constrain the discretion of the largest owner and, therefore, the ability of opportunistic shareholders to expropriate other shareholders. So, we can predict that the higher the ownership stake of other large owners in the divested unit, the lower the power to operate opportunistically for the largest owner, and thus, the higher divested unit performance.

Hypothesis 2: Divested unit performance is positively related to monitoring by other large owners of the divested unit.

Expropriation opportunity - monitoring by debtholders. Recent research highlights that value could be transferred not only between different shareholders, but also between shareholders and stakeholders. Klein & Zur (2001) find that hedge funds intervention increase stock prices and thus the value for firm's shareholders, but reduce bondholders' wealth and are related to downgrades of bond-ratings. Furthermore, expropriation and transfer of resources from the divested unit to the parent, may benefit the largest owner, but could also jeopardize the financial position of the unit. Atanasov and colleagues (2010) provide examples of deteriorating financial positions and even bankruptcy following transfer of resources and wealth from the divested unit to the parent.

Debt is not only a critical source of external financing (David, O'Brien, & Yoshikawa, 2008), but debtholders, such as banks, could accumulate proprietary information about their firm clients through multiple interactions over a range of products (Boot, 2000). Since informed debtors are likely to be concerned with the protection of their economic rents, they may be well positioned to constrain ownership opportunism. We extend to the domain of self-serving propensity of owners, the traditional assumption in agency research of beneficial, disciplining

role of debt, as it constrains managerial discretion to engage in self-serving actions at the expense of debtholders. In particular we argue that debt will have disciplining role on the ability of large owners to appropriate rents from debtholders. For instance a large owner with higher cash flow rights in the parent than in the divested unit, may be more cautious in transferring wealth from the subsidiary to the parent, when facing vigilant monitoring by debtholders, who in the case of bankruptcy could conduct investigations, raise allegations that affect the reputation of the owner, or press charges.

Hypothesis 3. Monitoring by debtholders will reduce expropriation opportunities, and thus will moderate the relationship between largest owner and divested unit performance.

Monitoring – substitutes or complements. So far we argued that both monitoring by other large shareholders and by debtholders will constrain the expropriation opportunities for the largest owner. Prior research, however, has suggested that different corporate governance mechanisms may be interdependent or substitute each other (i.e., Dalton, Daily, Certo, & Roengpitya, 2003; Walsh & Seward, 1990; Rediker & Seth, 1995). Limited insight, however, exists whether monitoring by shareholders and bondholders serve as substitutes, or instead could be complements and enhance each other. To act as substitutes, monitoring by debtholders would constrain expropriation opportunities and thus limit the impact of monitoring by shareholders, or vice versa. In such a case, monitoring role of other owners appears less relevant (e.g. Zajac, & Westphal, 1994). In the presence of higher level of debt, *debtholders* usually impose some financial covenants on firm decisions, limiting managerial opportunistic behavior. Thus, the

higher the monitoring role of *debtholders*, the less relevant is the monitoring role of other owners.

Some modern financial institutions, however could find themselves on both sides of the equation – with holdings both as shareholders and debtholders. In such instances, monitoring efforts may be complementary, as information gathered as debtholder could be used to monitor as a shareholder and vice versa. Therefore, we argue that monitoring by bondholders and shareholders will have an interactive effect on the performance of the divested unit.

Hypothesis 4. Monitoring by bondholders and other large shareholders will jointly affect the divested unit performance.

METHOD

Sample and data. We extracted data on divestitures implemented by companies located in 13 European countries, namely Austria, Belgium, Finland, France, Germany, Ireland, Italy, Norway, Portugal, Spain, Sweden, Switzerland, and U.K. Following Faccio & Lang (2002), we included only countries for which several ownership data sources were available, with particular reference to primary or official data. This sample allows us to test our hypotheses across different legal climates over a wide spectrum of shareholder rights protection and enforcement.

The divestitures considered included spinoff, equity carve-outs and sell-offs (Chen & Guo, 2005; Brauer, 2006; Bergh *et al.*, 2007). Data on spinoff and sell off divestitures was extracted from M&A Thomson One Banker dataset. Several filtering criteria were used for data selection. First, only completed divestitures announced between 1996 and 2006 were included. This period was considered sufficiently recent to facilitate data collection and long enough to

ensure an adequate divestiture sample. Consistent with previous studies (e.g., Bergh *et al.*, 2007), the transactions carried out by utilities firms and limited partnership parents were excluded. Equity carve-out transactions were obtained from the New Issue Database, available from Thomson One Banker. We selected as equity carve-outs those IPOs whose issuing firms were subsidiaries of another firm (Chen & Guo, 2005). Data on completed deals announced between 1996 and 2006 were collected. Utilities were again excluded, as well as companies that were organized as limited partnerships.

In order to ensure accuracy for all transactions, we manually checked the announcement date for corresponding newswire items in Lexis-Nexis. Moreover, we traced the ownership structure of both divesting parents and divested units. Specifically, we reconstructed ownership structures from Thomson One Banker and Stock Exchange institutional reports. Furthermore, we used Datastream and Stock Exchange institutional web sites to analyze dual class shares, ownership rights and control rights. Missing data reduced our sample to a final dataset including 130 transactions.

Dependent Variable. Divested company performance is measured with the yearly performance data of the divested unit over three years from the divestiture. We adjusted Return-on-Assets (ROA) of the divested unit by subtracting industry ROA, calculated as the average for all firms participating in the same two-digit Standard Industrial Classification (SIC) industry as the divested unit. This treatment allowed us to control for potential industry variations of performance that affect the performance of the divested unit.

Independent Variables

We calculated cash flows rights distribution of the largest owner. We used the ratio that compares the stake of the largest owner in the divested company (*Cash Flow Rights in divested unit*) relative to the ownership stake in the parent company (*Cash Flow Rights in the parent*). Firstly, we identify the largest owner in the parent firm and measure its ownership stakes in the parent company (*Cash Flow Rights in the parent*). Secondly, we construct the *Cash Flow Rights in the divested unit* of the (parent) largest owner after the transaction (e.g. Claessens, Djankov & Lang, 2000; Faccio & Lang, 2002). Specifically, according to Figure 1, the *Cash Flow Rights in the divested unit* is equal to the sum between indirect and direct ownership of the largest owner in the divest unit. The *direct* ownership is the amount of stakes held by largest owner in the divested unit ($z\%$ in Figure 1). The *indirect* ownership is equal to the product of the ownership along the control chain ($x\% * y\%$ in Figure 1). For example, if the largest owner has 10% ($z\%$) of divested unit and 25% ($y\%$) of parent firm that owns 20% ($x\%$) of divested unit, then this owner has 5% of indirect and 10% of direct ownership. The cash-flow rights in divested unit is equal to 15%. Accordingly:

$$\text{Largest owner expropriation incentives} = \frac{\text{Cash Flow Rights in the divested unit}}{\text{Cash Flow Rights in the parent}}$$

Monitoring by other large owners was calculated by summing the ownership stake of the second and the third largest owner of the divested unit. To be able to effectively constrain self-serving propensity of the dominant owner, such owners should have significant stake in the game relative to the largest owner. To render the measure more comparable to the stake of the largest owner, we scaled it by the ownership stake of the largest owner in the divested unit.

Monitoring by debtholders. We measured the propensity of debtholders to monitor the divested unit as the extent of financial debt of the unit scaled by its total assets.

Controls. We control for several factors other than ownership structure that could affect the performance of the divested unit, including pre-divestiture performance of the parent, size of the divested unit and the parent (the log of total revenues), whether the parent and the divested unit operate in different industries, based on the SIC industry codes, whether the divestiture occurred in a country with civil or common law, as this could impact the protection of minority shareholders and year dummies (Bergh, 1995; Chen & Guo, 2005; Bergh & Lim, 2008; Schneper, & Guillen, 2004). “Institutional investors have emerged as major equity owners and thus key players in corporate governance.” (Hoskisson et al., 2002: 698). As such owners may have more financial sophistication (Del Guercio, 1986, O’Barr & Conley, 1992, Schnatterly *et al.*, 2008) and thus be better able to detect and penalize expropriation, we control for the ownership stakes of institutional investors of the divested unit. Finally, to account for dominant owner ability to solve agency problems, we also control for the dominant owner stake in the parent (Peruffo, Oriani, Folta, 2011).

RESULTS

Table 1 reports means, standard deviations and correlations for the studied variables. None of the correlation coefficients or VIF factors raised potential problems of multicollinearity. We used hierarchical regression models (OLS) to test our hypotheses. Prior to forming the interactions, we centered the variables. Table 2 presents our main findings, with Model 1

reporting the control variables, Model 2 the hypothesized main effects, and Model 3 the interactions. The performance of the divested unit is strongly affected by the size of the divested unit, with larger units that realize higher revenues more likely to exhibit positive ROA ($b=3.8$, $p<.05$, Model 1).

INSERT TABLES 1 AND 2 ABOUT HERE

To test our first hypothesis we examine whether the relationship between the cash flow rights of the largest owner in the divested unit relative to the parent are related to the divested unit performance (*ROA*). We find that the higher the cash flow rights in the unit relative to the parent, the more likely is the unit to exhibit superior performance relative to its competitors. $\beta=11.62$, $p <.05$; Model 1). Thus, we fail to reject Hypothesis 1. Our results are consistent with prior research on ownership expropriation that cash flow rights imbalances in corporate chains create incentives for influential owners to transfer resources to the unit where they have higher cash flow rights (e.g. Bertrand, *et al.*, 2002; Hoskisson *et al.*, 2005). Furthermore, monitoring by other large owners constrains the ability of the largest owner to transfer resources, and potentially expropriate other shareholders. We find that the ownership stake of the next two largest owners is positively related to the divested unit performance ($\beta= 7.78$, $p<.05$; Model 2).

Our results with regards to monitoring by debtholders were unexpected. Traditionally agency theory researchers assume that debt will have disciplining impact on corporate managers. We extended that logic to large owners, as we expected that debtholders will monitor and constrain large owners opportunities to extract private benefit from the divested unit at the expense of other shareholders and/or stakeholders. Instead, we found that debt interacts

negatively with the CFR ratio of the large owner ($\beta = -67.64$, $p < .05$; Model 3). Figure 2 where we plotted the interaction between monitoring by debtholders and the expropriation incentives of the largest owner based on his or her CFRs distribution provides some insights into this result. When the CFRs of the largest owner are heavily skewed towards the parent, debtholders indeed provide beneficial monitoring service, in the sense that higher debt levels are related positively to firm performance. When the largest owner has higher CFRs in the divested unit, however, the overall impact of more debt on firm performance is negative. Our results do not provide support for our explorative hypothesis 4, which was looking at the substitution or complementary effect of monitoring by debtholders and shareholders. The coefficient in Model 3 is negative but not statistically significant. Debtholders, at least in our sample, are not able to substitute the monitoring role of other owners, probably due to the higher level of information asymmetry between debtholders and insiders.

LIMITATIONS AND DISCUSSION

The relationship between strategic actions, such as corporate restructuring and performance presents a central question in the strategy field (Barney, 2002), yet the question “*performance for whom*” has not received much attention (David *et al.*, 2010). In particular divestiture literature has tended to treat the ownership bodies of divesting parent and the divested unit as either completely different or else as being virtually the same as in spin-offs. Little emphasis has been placed on instances where some owners (but not others) have substantial ownership stakes in both the parent and the divested units. Such owners are well positioned both in terms of informational asymmetries relative to other owners, and ability to realize benefits of control at the expense of other investors. Consistent with prior research on heterogeneous

interests of owners (Connelly *et al.*, 2010; David *et al.*, 2010; Goranova, Dharwadkar, & Brandes., 2010; Hoskisson *et al.*, 2002, Thomsen & Pedersen, 2000; Tihanyi *et al.*, 2003), we posit that such owners will have interests that diverge from the interests of owners with stakes only in the divested unit. Furthermore, such owners may be more willing to accept inferior performance in one unit, provided that they could draw the benefits of supranormal returns in the other unit. Investigating the implications of ownership in the context of corporate divestitures in multinational settings will contribute to the budding literature exploring the implications of complex ownership structures and principal interests' heterogeneity. We also show how the expropriating incentives of large owners are limited by other owners.

Limitations. Our results show that the distribution of the cash flow rights of the largest owner in the divesting parent and the divested unit affects the performance of the divested unit, and thus are largely consistent with prior research on large owners that reports expropriation through transferring resources from companies where the large owners have fewer cash flow rights to the ones where they have higher cash flow rights (e.g., Bertrand *et al.*, 2002; Claessens, Djankov, Fan, & Lang, 2002; Hoskisson *et al.*, 2005), While our study provides some support for the theory of corporate illegality, we should note that large owners, even if facing incentives and opportunities to expropriate other shareholders or stakeholders, may instead choose to act ethically.

Cressey (1950) highlights that violation of financial trust often occurs when a problem potentially solvable by the violation concurs with the perpetrator's rationalization of the trust violation as 'borrowing' funds. Such rationalizations may come from knowledge of similar behavior by others. A limitation of our study, however, is that we did not observe the moral predisposition of the largest owners, nor how their interlocks to other expropriators have affected

their perception of the acceptability of shareholder or stakeholder expropriation. Future research should examine how corporate interlocks and the network of the largest owner influence the likelihood of expropriation.

Furthermore, while our study has implications for the debate on ownership empowerment, and we attempted to research exhaustively the ownership patterns of the large owner at the divesting parent and the divested unit, modern financial innovations allow further separation of cash flow rights from voting rights (see for instance the fight between Mylan's large shareholders: Perry Capital and Carl Icahn; both parties had hedging transactions that distorted the equilibrium between voting rights and economic interests). Modern financial instruments, therefore, could separate influence from responsibility, in the sense that parties could exercise voting rights without bearing the economic costs for their decision. Furthermore, the prior example highlights how large shareholders could monitor and countervail each other's actions. However, our assumption that other large owners will contest and constrain expropriation activities by the large owner, may be subject to the extent that these owners share in the benefits from the expropriation. Future research, therefore, should examine when such owners are more likely to contest vs. collude with the largest owner.

We attempted to contribute to the existing literature on divestitures and the debate on shareholder empowerment, in several ways. First, we examine how ownership structures of both parent and divested unit affect divested unit performance. By contrast prior literature has tended to presume that the buyer and the seller are separate entities (Lee & Madhavan, 2010). Second, prior research has been concerned to a disproportionate degree with parent company's performance (e.g., Brauer, 2006), and with some notable exceptions (i.e., Semadeni & Cannella, 2010) has tended to ignore the implications for the divested unit. We address this gap by

investigating empirically the impact of ownership structure on the performance of the divested unit. In doing that, we analyze the performance of the divested unit in three years after the transaction. We believe that the attention to long-term performance is important because the expropriation can take place not only through an unfair pricing of the divestiture transaction, but also through subsequent intercompany transactions, such as loans, contractual agreements, asset sales and customer-supplier relationships (Atanassov *et al.*, 2010). In this way, we are able to better understand for whom divestiture is creating value and how it is distributed among parties.

Third, prior works on owner opportunism (e.g. Dalziel, White, & Arthurs, 2011; Connelly *et al.*, 2010) have not investigated the role played by other major owners and creditors in monitoring owners' opportunistic behavior. In this paper, we show that even when interlocking owners have potential incentives to transfer resources from the divested unit to the parent company, stricter monitoring by other large shareholders and creditors can limit such opportunistic behavior.

REFERENCES

- Alchian, A.A., & Demsetz, H. 1972. Production, Information Costs and Economic Organization. *American Economic Review*, 62 (5): 772-795.
- Amihud, Y. & Lev, B., 1981. Risk reduction as a managerial motive for conglomerate mergers. *Bell Journal of Economics*, 12: 605–617.
- Anabtawi, I., & L.A. Stout. 2008. Fiduciary duties for activist shareholders. *Stanford Law Review*, 60.
- Arikan, A. M., & Capron, L. 2010. Do newly public acquirers benefit or suffer from their pre-IPO affiliations with underwriters and VCs?. *Strategic Management Journal*, 31: 1257-1289.
- Atanasov, V., Boone, A., & Haushalter, D. 2010. Is there shareholder expropriation in the United States? An analysis of publicly traded subsidiaries. *Journal of Financial and Quantitative Analysis*, 45: 1-26.
- Barney, J. B. 2002. *Gaining and sustaining competitive advantage*. Englewood Cliffs, NJ: Prentice-Hall.
- Baucus, M. S. 1994. Pressure, opportunity and predisposition: A multivariate model of corporate illegality. *Journal of Management*, 20: 699–721.
- Beatty, R.P., & Zajac, E.J. 1994. Managerial incentives, monitoring, and risk bearing: a study of executive compensation, ownership, and board structure in initial public offerings. *Administrative Science Quarterly*, 39(2): 313–335.
- Bebchuk, L., Kraakman, R., & Triantis, G. 2000. Stock pyramids, cross-ownership, and dual class equity: the mechanisms and agency costs of separating control from cash-flow rights.

- In *Concentrated Corporate Ownership*, Morck R (ed). University of Chicago Press: Chicago, IL; 295–318.
- Bebchuk, L. A., 2005. *The Case for Increasing Shareholder Power*. Harvard Law Review, 118(3): 833-914.
- Bergh, D.D., & Lim, E. 2008. Learning how to restructure: Absorptive capacity and improvisational views of restructuring actions and performance. *Strategic Management Journal*, 29(6): 593-616.
- Bergh, D.D., Johnson, R.A., & Dewitt, R.L. 2007. Restructuring through spin-off or sell-off: transforming information asymmetries into financial gain. *Strategic Management Journal*, 29(2): 133-148.
- Bergh, D.D., & Holbein, G.F. 1997. Assessment and redirection of longitudinal analysis: demonstration with a study of the diversification and divestiture relationship. *Strategic Management Journal*, 18(7): 557–571.
- Bergh, D.D. 1995. Size and relatedness of units sold: An agency theory and resource-based perspective. *Strategic Management Journal*, 16:221-239.
- Bearle, A. & Means, G. 1932. *The Modern Corporation and Private Property*. New York: Macmillan.
- Bebchuk, L. 2007. The myth of the shareholder franchise. *Virginia Law Review*, 93: 675–732.
- Bebchuk, L A. & Jackson, R- J., 2011. The Law and Economics of Blockholder Disclosure. **Harvard Business Law Review**, 2 (1): 40-60.

- Bertrand, M., Mehta, P., & Mullainathan, S. 2002. Ferreting out tunneling: An application to Indian business groups. *Quarterly Journal of Economics*, 117: 121-148.
- Boot, A.W.A. 2000. Relationship banking: What do we know? *Journal of Financial Intermediation*, 9: 7–25.
- Bratton, W. 2007. *Hedge Funds and Governance Targets*. Georgetown Law Journal, 95: 1375-1433.
- Brauer, M. 2006. What have we acquired and what should we acquire in divestiture research? A review and research agenda. *Journal of Management*, 32:751–785.
- Bushee, B. 1998. The influence of institutional investors on myopic R&D investment behavior. *Accounting Review*, 73: 305-33.
- Chaganti, R., & Damanpour, F. 1991. Institutional ownership, capital structure, and firm performance. *Strategic Management Journal*, 12:479–491.
- Chang, S. 2003. Ownership structure, expropriation, and performance of group affiliated companies in Korea. *Academy of Management Journal*, 46(2): 238–253.
- Chen, H. L., & Guo, R. J. 2005. On corporate divestiture. *Review of Quantitative Finance and Accounting*, 24: 399–410.
- Claessens, S., Djankov, S., & Lang, L. 2000. The separation of ownership and control in East Asian corporations. *Journal of Financial Economics*, 58: 81-112.
- Claessens, S., Djankov, S., Fan, J. P. H., & Lang, L. H. P. .2002. Disentangling the Incentive and Entrenchment Effects of Large Shareholdings. *The Journal of Finance*, 57:2741–2771.

- Connelly, B.L., Hoskisson, R.E., Tihanyi, L., & Certo, S.T. 2010. Ownership as a form of corporate governance. *Journal of Management Studies*, 47(8): 1561-1589.
- Cressey, D.R. 1950. The criminal violation of financial trust. *American Sociological Review*, 15 (6): 738–743.
- Cressey, D.R. 1953. *Other People's Money: A Study in the Social Psychology of Embezzlement*. Glencoe, Illinois: The Free Press.
- Dalziel, T., White, R.E., & Arthurs, J.D. 2011. Principal Costs in Initial Public Offerings. *Journal of Management Studies*, 48(6): 1346-1364.
- Dalton, D.R., Daily, C.M., Certo, S.T., & Roengpitya, R. 2003. Meta-analyses of corporate financial performance and equity: fusion or confusion? *Academy of Management Journal*, 46(1): 13–26.
- Datta, D.K., Pinches, G.E., & Narayanan, V.K. 1992. Factors influencing wealth creation from mergers and acquisitions: a meta analysis. *Strategic Management Journal*, 13(1): 67–84.
- David, P., Hitt, M.A., & Gimeno J. 2001. The influence of activism by institutional investors on R&D. *Academy of Management Journal*, 44(1): 144–157.
- David, P., Kochhar, R., & Levitas, E.. 1998. The effect of institutional investors on the level and mix of CEO compensation. *Academy of Management Journal*, 41(2): 200–208.
- David, P., O'Brien, J.P., & Yoshikawa, T. 2008. The implications of debt heterogeneity for R&R investment and firm performance. *Academy of Management Journal*, 51(1): 165-181.

- David, P., O'Brien, J.P., Yoshikawa, T., & Delios, A. 2010. Do shareholders or stakeholders appropriate the rents from corporate diversification ? The influence of ownership structure. *Academy of Management Journal*, 53:636–654.
- Del Guercio, D. 1986. The distorting effect of the prudent-man laws on institutional equity investments. *Journal of Financial Economics*, 40 (1): 31-62.
- Dharwadkar, R., George, G., & Brandes P. 2000. Privatization in emerging economies: an agency theory perspective. *Academy of Management Review*, 25(3): 650–669.
- Dimitrov, V., & Jain, P.C. 2011. It's Showtime: Do Managers Report Better News Before Annual Shareholder Meetings?. *Journal of Accounting Research*, 49:1193–1221.
- Faccio, M., & Lang, L. 2002. The ultimate ownership of western European corporations. *Journal of Financial Economics*, 65: 365-395.
- Filatotchev, I., & Toms, S. 2003. Corporate governance, strategy and survival in a declining industry: a study of U.K. cotton textile companies. *Journal of Management Studies*, 40: 895–920.
- Gillan, S.L., & Starks, L.T. 2000. Corporate governance proposals and shareholder activism: the role of institutional investors. *Journal of Financial Economics*, 57(2): 275–305.
- Goranova, M., Dharwadkar, R., & Brandes, P. 2010. Owners on both sides of the deal: mergers and acquisitions and overlapping institutional ownership. *Strategic Management Journal*, 31: 1114–1135.
- Schneper, W.D., & Guillen, M.F. 2004. Stakeholder rights and corporate governance: a cross-national study of hostile takeovers. *Administrative Science Quarterly*, 49(2): 263-295.

- Hart, O. 1995. Corporate governance: Some theory and implications. *The Economic Journal*, 105(430): 678-689.
- Hartzell, J.C., & Starks, L.T. 2003. Institutional investors and executive compensation. *The Journal of Finance*, 58:2351–2374.
- Hill, C.W, & Snell, A.S. 1989. Effects of Ownership Structure and Control on Corporate Productivity. *The Academy of Management Journal*. 32 (1): 25-46
- Hitt, M.A., Ireland, R.D., & Harrison, L.S. 2001. Mergers and acquisitions: a value creating or value destroying strategy? In *The Blackwell Handbook of Strategic Management*, Hitt, M.A., Freeman, R.E., Harrison, L.S. (eds.. Blackwell: London, UK; 384–408.
- Holland, J. 1998. Influence and intervention by financial institutions in their investee companies. *Corporate Governance*, 6(4): 249–264.
- Hoskisson, R.E., Hitt, M., Johnson, R.A., & Grossman, W. 2002. Conflicting voices: the effects of institutional ownership heterogeneity and internal governance on corporate innovation strategies. *Academy of Management Journal*, 45(4): 697–716.
- Hoskisson, R.E., Johnson, R., Tihanyi, L., & White, R. 2005. Diversified business groups and corporate refocusing in emerging economies. *Journal of Management*, 31(6): 941–965.
- Hoskisson, R.E., Johnson, R.A., & Moesel, D.D. 1994. Corporate divestiture intensity in restructuring firms: effects of governance, strategy, and performance. *Academy of Management Journal*, 37(5): 1207–1251.
- Jara-Bertin, M., Lòpez-Iturriaga, F.J., & Lòpez-de-Foronda, O.L. 2008. The contest to the control in european family firms: how other shareholders affect firm value. *Corporate governance: an international review*, 16(3): 146-159.

- Jensen, M., & Meckling, W. 1976. Theory of the firm: managerial behavior agency, cost and ownership structure. *Journal of Financial Economics*, 3(4): 305–360.
- Jiang, G., Lee, C.M.C., & Yue, H. 2010 Tunneling through intercorporate loans: The China experience. *Journal of Financial Economics*, 98(1): 1-20.
- Johnson, R.A. 1996. Antecedents and outcomes of corporate refocusing. *Journal of Management*, 22: 439–483.
- Johnson, R. A., & Greening, D.W. 1999. The effects of corporate governance and institutional ownership types of corporate social performance. *Academy of Management Journal*, 1(5): 564-576.
- Kaplan, S., & Weisbach, M. 1992. The success of acquisitions: evidence from divestitures. *Journal of Finance*, 47: 108–138.
- Karmel, R. 2004 Should A Duty to the Corporation Be Imposed on Institutional Investors? *Business Law*, 60:1-2.
- King, D.R., Dalton, D.R., Daily, C.M., & Covin, J.G. 2004. Metanalysis of post-acquisition performance: indications of unidentified moderators. *Strategic Management Journal*, 25(2): 187–200.
- Klein, A., & Zur, E., 2011. The impact of hedge fund activism on the target firm’s existing bondholders. *Review of Financial Studies*, 24: 1735-1771.
- Kochhar, R., & David, P. 1996. Institutional investors and firm innovation: a test of competing hypotheses. *Strategic Management Journal*, 17(1): 73–84.
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R.W. 1998. Law and finance. *Journal of Political Economy*, 106: 1113–1155.

- La Porta R., Lopez-De-Silanes, F., & Shleifer A. 1999. Corporate ownership around the world. *Journal of Finance*, 54: 471-516.
- Lan, L.L., & Heracleous, L. 2010. Rethinking agency theory: The view from law. *Academy of Management Review*, 35: 294-314.
- Lee, D.D., & Madhavan, R. 2010. Divestiture and firm performance: a meta-analysis. *Journal of Management*, 36(6), 1345-1371.
- Maury, B. 2006. Family ownership and firm performance: Empirical evidence from Western European corporations. *Journal of Corporate Finance*, 12: 321-341.
- Moschieri, C., & Mair, J. 2008. Research on corporate divestiture: a synthesis. *Journal of Management & Organization*, 14 (4): 399-422.
- Moschieri, C. 2010. The implementation and structuring of divestitures: the unit's perspective. *Strategic Management Journal*, 32 (4), 368-401.
- Peng, M. W., & Jiang, Y. 2010. Institutions behind family ownership and control in large firms. *Journal of Management Studies*, 47(2), 253-273.
- Peruffo E., Oriani R., & Folta TB. 2011. *Multi Agency conflicts and National Governance Systems: the role of Dominant Owner on Divestiture Financial Performance*, paper presented at the Academy of Management, Montreal.
- Peruffo E., Perri A., & Gentili S. *Verso una "cultura" del disinvestimento: efficienza, superiorità e conformità*, paper presented at the AIDEA 2013; http://www.aidea2013.it/docs/240_aidea2013_economia-aziendale.pdf.
- Ravenscraft, D.J., & Scherer, F.M. 1987. Life After Takeover *The Journal of Industrial Economics*, 36 (2): 147-156.

- Rediker, K., & Seth, A. 1995. Boards of directors and substitution effects of alternative governance mechanisms. *Strategic Management Journal*, 16(2): 85–99.
- Ross, R. 1973. The Economic Theory of Agency: The Principal's Problem. *The American Economic Review*, 63 (2): 134-139.
- Schnatterly, K., Shaw, K. W. & Jennings, W. W. (2008). Information advantages of large institutional owners. *Strategic Management Journal*, 29: 219–227.
- Schneper, W.D., & Guillén, M.F. 2004. Stakeholder rights and corporate governance: A cross-national study of hostile takeovers. *Administrative Science Quarterly*, 49:263–295.
- Semadeni, M., & Cannella, A.A. 2011. Examining the performance effects of post spin-off links to parent firms: Should the apron strings be cut? *Strategic Management Journal*, 32(10): 1083-1098.
- Seward, J.K., & Walsh, J.P. 1996. The governance and control of voluntary corporate spin offs. *Strategic Management Journal*, 17(1): 25-39.
- Shleifer, A., & Vishny, R. 1986. Large shareholders and corporate control. *Journal of Political Economy*, 94: 461–488.
- Shleifer, A., & Vishny, R. 1997. A survey of corporate governance. *Journal of Finance*, 52: 737–783.
- Stout, L. 2007. *Why we should stop teaching Dodge v. Ford*. Research paper No. 07-11, Law & Econ Research Paper Series, UCLA School of Law.
- Thomsen, S., & Pedersen, T. 2000. Ownership structure and economic performance in the largest European companies. *Strategic Management Journal*, 21: 689-705.

- Tihanyi, L., Johnson, R.A., Hoskisson, R.E., & Hitt, M.A. 2003. Institutional ownership differences and international diversification: the effects of boards of directors and technological opportunity. *Academy of Management Journal*, 46(2): 195–211.
- Tosi, H.L., Katz, J.P., & Gomez-Mejia, L. 1997. Disaggregating the agency contract: the effects of monitoring, incentive alignment, and term in office on agent decision making. *Academy of Management Journal*, 40(3): 584–602.
- Useem, M. 1996. *Investor Capitalism: How Money Managers are Changing the Face of Corporate America*, Basic Books/HarperCollins.
- Zahra, S.A. 1996. Governance, Ownership, and Corporate Entrepreneurship: The Moderating Impact of Industry Technological Opportunities. *Academy of Management Journal*, 39:6; 1713-1735
- Zahra, S.A.; Ireland, R.D., & Hitt M.A. 2000. International Expansion by New Venture Firms: International Diversity, Mode of Market Entry, Technological Learning, and Performance. *Academy of Management Journal*, 43(5): 925-950.
- Zajac, E.J., & Westphal, J.D. 1994. The costs and benefits of managerial incentives and monitoring in large U.S. corporations: when is more not better? *Strategic Management Journal*, 15: 121–142.
- Zingales, L. 1994. The value of voting right: a study of the Milan Stock Exchange Experience. *The Review of Financial Studies*, 7 (1): 125-148.

Figure 1: Large Owners and Performance of Divested Units

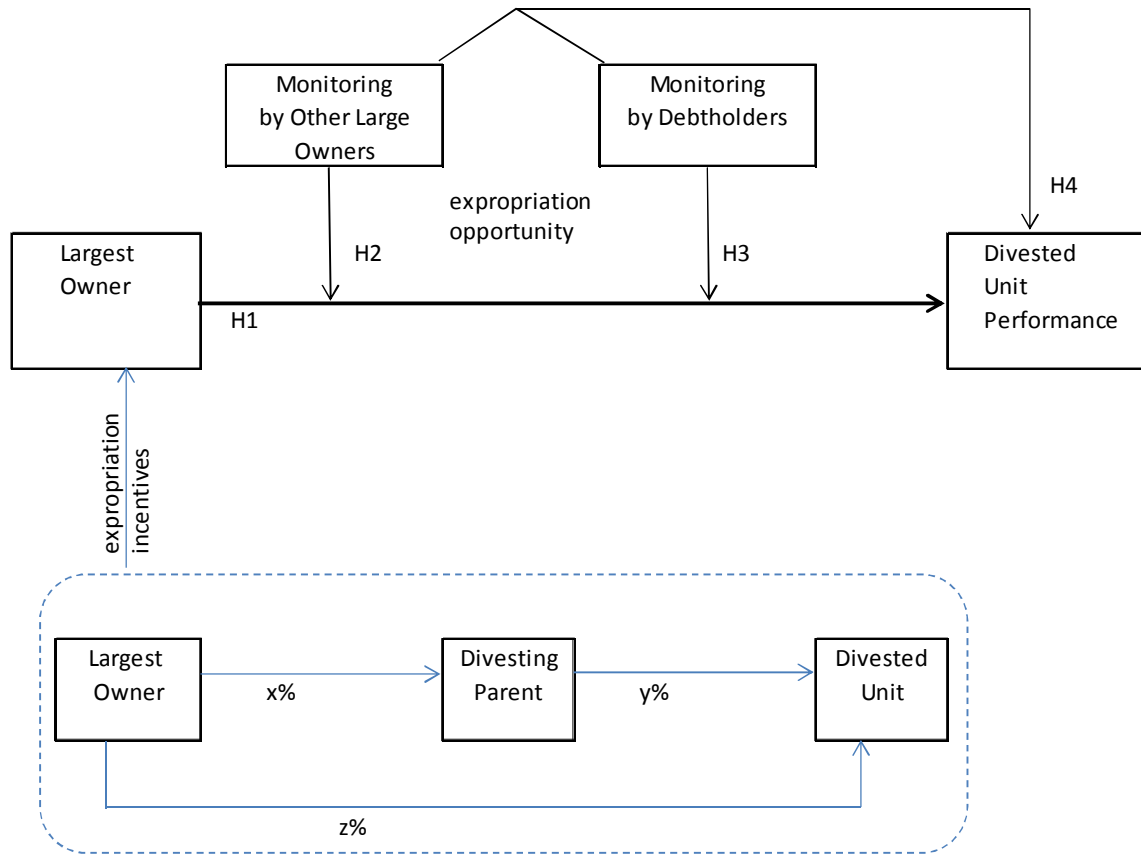


Figure 2. Largest Owner and Divested Unit Performance: Moderating Role of Debtholders

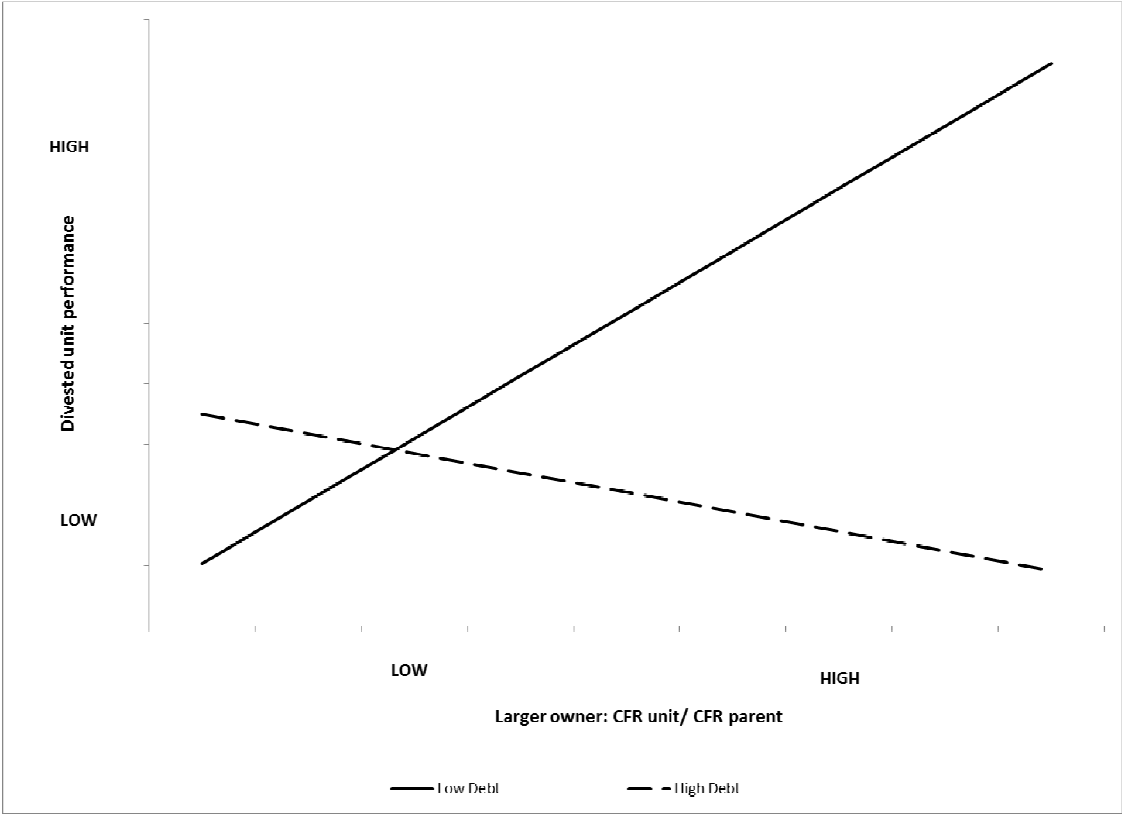


Table 1. Summary statistics and correlations

#	Variable	Mean	SD	Min	Max	1	2	3	4	5	6	7	8	9	10
1	Divested unit performance (ROA)	2.89	19.9	-106.78	73.60	1									
2	Largest owner: Cash Flow Rights unit/ CFR parent	0.22	0.36	0.00	1.00	0.18*	1								
3	Other large owners	0.51	0.51	0.00	1.96	0.05	-0.29*	1							
4	Monitoring by debtholders	0.18	0.22	0.00	0.85	0.09	-0.11*	0.08	1						
5	Institutional investors	0.18	0.23	0.00	0.98	0.03	-0.11	0.37*	0.01	1					
6	Parent size (revenue)	6.48	1.29	2.60	10.11	0.15	0.01	-0.17	0.09	0.03	1				
7	Divested unit size (revenue)	5.60	1.21	1.09	8.58	0.31*	-0.01	-0.11	0.13	-0.03	0.46*	1			
8	Shareholder rights protection	2.03	0.59	1.20	2.80	-0.19*	-0.12*	0.17	0.14	-0.01	-0.23*	-0.37*	1		
9	Parent Dominant Owner	0.36	0.27	0.02	1.00	0.17	0.02	-0.11	-0.20*	-0.01	-0.06	0.06	-0.13	1.00	
10	Performance - parent (ROA)	1.79	11.37	-92.92	56.21	-0.00	0.04	-0.10	0.10	-0.00	0.18*	0.02	-0.02	-0.07	1
11	Parent-unit: different industries	0.29	0.46	0.00	1.00	0.05	0.11	-0.03	-0.07	0.02	0.14	0.09	-0.12	-0.09	0.06

Notes: N = 130

†p < .10; *p < .05; **p < .01; ***p < 0.001, two-tailed tests.

Table 2: Large Owners Expropriation or Monitoring: Evidence from Divested Unit Performance

Variable	Controls	Main Effects	Interaction
	Model 1	Model 2	Model 3
	<i>Coef. (Std.Err.)</i>	<i>Coef. (Std.Err.)</i>	<i>Coef. (Std.Err.)</i>
Intercept	-15.79 (14.83)	-27.02 (14.76)	-31.59 (14.60)
Divested unit Institutional ownership	1.52 (7.26)	-2.51 (7.59)	-5.13 (7.56)
Divested unit size	3.63* (1.48)	3.49* (1.60)	3.95* (1.59)
Parent dominant owner	7.86 (6.06)	10.15† (6.03)	11.68† (5.95)
Parent performance	-0.03 (0.14)	-0.03 (0.14)	-0.03 (0.14)
Parent size	1.01 (1.48)	1.46 (1.45)	1.45 (1.43)
Different industries	-1.39 (3.87)	-1.81 (3.79)	-2.77 (3.74)
Shareholder protection	-3.31 (3.15)	-3.38 (3.11)	-2.94 (3.07)
Largest owner: CFR unit/ CFR parent		13.58** (4.58)	25.41*** (6.54)
Monitoring by other large owners		7.40* (3.60)	9.87* (4.51)
Monitoring by debtholders		7.03 (8.01)	18.77 (11.63)
Largest owner CFR ratio * Monitoring by debtholders			-73.56** (29.60)
Other large owners * Monitoring by debtholders			-9.23 (13.72)
Year Dummies	Yes	Yes	Yes
F value	2.47**	2.83***	2.95***
Adj R-square (%)	15,4%	21,2%	24,1%
R-square (%)	25,9%	32,8%	36,4%
Change in R-square		6,9 *	3,6 *

Notes: N = 130, year coefficients not included here for brevity
 †p < .10; *p < .05; **p < .01; ***p < 0.001, two-tailed tests.