Discussion of:

Albuquerque and Schroth:

Determinants of the Block Premium and of Private Benefits of Control

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Private Benefits of Control

Benefits accruing to controlling shareholder(s), do not "spill over" to minority shareholders

Very important concept in theoretical corporate finance.

However, very difficult to empirically find the benefits.

Problem: Not observable, need to be inferred indirectly.

Two approaches in the literature.

Voting premium, premium to voting vs nonvoting shares [Lease, McConnell, and Mikkelson, 1983].

Block premium, inferred from block premia [Barclay and Holderness, 1989].

Both – Indirect approaches: After removing other suspects, the private benefits are assumed to be what is left behind.

Empirically inferring private benefits from block premia

Essentially: Event studies.

Private benefits: Accruing to current blockholder of a stock.

Event: Transfer of large block of share at negotiated price P.

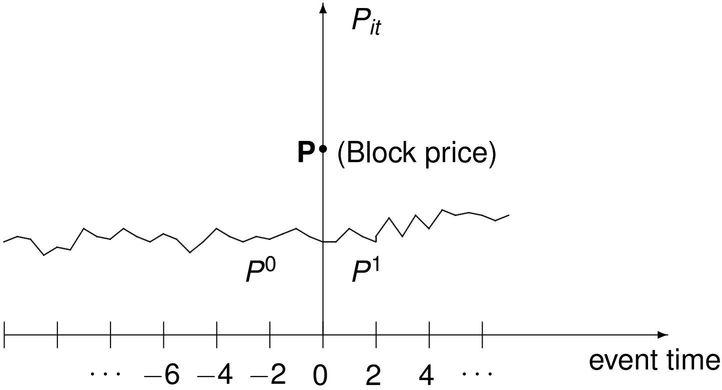
Private benefits now accruing to new block-holder.

Observe: Market price of stock before (P^0) and after event (P^1).

Suppose transfer of block-holder do not affect running of company.
Only effect of block transaction: Who gets the private benefits?
Price in transaction: Payment for future private benefits.

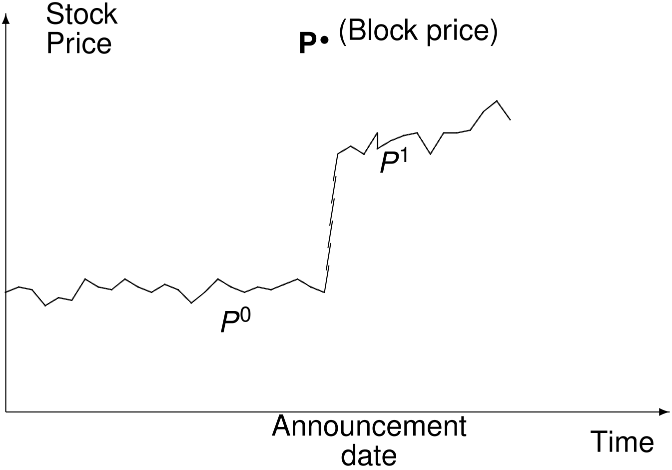
How should price behaviour be?

Block price, “pure” transfer private benefits



Easy to believe difference **P** and market price represent price of private benefits.

Block price, transfer private benefits, stock price reaction

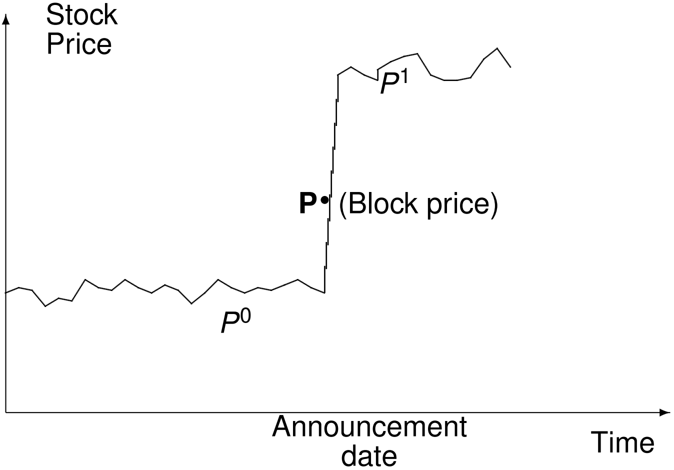


What to think here?

Stock price reaction to announcement (synergies, monitoring)

additional payment for private benefits?

Block price, transfer private benefits, stock price reaction



What to think here?

Stock price reaction to announcement (synergies, monitoring) – *negative* private benefits?

Formulation in paper: *Blocks trade at a discount* (relative to after-the fact price P^1.

Idea of **This paper**

Is it possible to disentangle the two effects

– private benefits, and
– other things going on at the same time?

Or, in econometric terms:
Private benefits are what we are after
the rest are nuisance parameters.

How to do such things in econometrics?
1) More data
2) More structure

Here: Add structure, by taking a model built on Burkart, Gromb, and Panunzi [2000].

Allow direct estimation of parameters of model.

Model can then be used directly for analysis.

Impossible to summarize findings

Important insight: It is necessary to have a *model* that can tell us the implication of *discounts* in block premia (third picture above)

Quibbles

A couple of minor things.

Owner type

In the analysis distinguish between purchasers :
– individuals
– corporations

Claim two reasons:

1) Individuals more like to enjoy perks – OK, buy that.

2) "*Corporations may derive more private benefits to the extent that the target belongs to the same industry or are vertically integrated so that their assets have synergies that more easily allow for income transfer across firms*"

– Is this really what we think of as private benefits – is this not really an explanation for stock price reactions?

Effect of size

In paper, find negative link between firm size and private benefits.
Say seldom seen elsewhere, and then with opposite sign
Here is another example of a positive link

Estimates of determinants of voting premium for Norway (From Ødegaard [2007])

	coeff	[pvalue]	coeff	[pvalue]
Constant	-0.548	[0.03]	-0.456	[0.07]
Largest owner	0.300	[0.00]	0.260	[0.02]
Insider fraction	0.030	[0.59]	0.011	[0.95]
Foreign fraction	-0.205	[0.00]	-0.174	[0.02]
Relative turnover A/B	0.043	[0.00]		
Relative bid-ask spread A/B			0.014	[0.68]
log company value	0.027	[0.02]	0.024	[0.03]
n	105		105	
$\bar{R}^2$	0.18		0.10	

(Subperiod 1995–2003)

Conclusion

Admirable attempt to take a corporate finance model seriously and then straight to the data

Estimate actual structural model
– not stylised facts/reduced form implications.

The obvious way to go to formulate and reject testable implications of an actual model.

We need more of this kind of work in corporate finance.

Rui Albuquerque and Enrique Schroth. Determinants of the block premium and of private benefits of contro. Working Paper, Boston University and University of Lausanne, January 2008.

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M Burkart, D Gromb, and F Panunzi. Agency conflicts in public and negotiated transfers of corporate control. *Journal of Finance*, pages 647–677, 2000.

Ronald C Lease, John J McConnell, and Wayne Mikkelson. The market value of control in publicly–traded corporations. *Journal of Financial Economics*, 11:439–71, 1983.

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