Ownership Concentration and Firm Value: New Evidence from Owner Stakes in IPOs[a]

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[a] The views and opinions expressed are those of the authors alone and do not necessarily reflect those of the Central Bank of Chile.

Comments Outline

1. Motivation, Intuition and Mechanisms
2. Empirical Implementation
3. Final Ideas and Remarks

Motivation, Intuition and Mechanisms

Comment 1 - Which is the Focus of the Paper?

- Goal of the paper: *"Causal relationship between ownership concentration and firm value"*
- The results hold only for owner-managers $\Rightarrow$ Paper focuses a lot on their agency problems
  - $\Rightarrow$ The paper is more about stakes of owner-managers and the implied agency issues
- $\Rightarrow$ Limited external validity for overall relationship between ownership concentration and firm value
- Agency problems of owner-managers seems very interesting, relative to other majority shareholders
  - Maybe makes sense to focus more the paper on this margin
  - Is mechanism about owner-manager capture or lower benefits of investing in low-stakes firms?
  - This strategy is easier to motivate...actually, the introduction starts with this motivation
  - Other than that, the current motivation is very literature-driven

Comment 2 - Aggregate Relevance of their Exercise?

- Useful to show how relevant are owner-manager firms
  $\Rightarrow$ How relevant economically their findings/implications are

- What share of value-added these firms represent, and thus how much value-added would be lost from their experiment? Or what other aggregate real outcome should be affected by their experiment?
  - Theoretical argument for agency problems is in the paper, but not its economic relevance

- Maybe useful to connect more their findings with real outcomes
  - Authors talk about investment, could be useful to stress that more

Comment 3 - Incentives Behind Their Results $\Rightarrow$ Two Problems: First

- Puzzling behavior of owner-managers: Dilute their shares but the market internalizes a cost of this
  - Maybe because owner-manager extracts rents when stakes are lower?
  - It could be also that the benefits of investing/monitoring are lower
- The authors argument is that the owner-manager benefits in net terms
- $\Rightarrow$ Important to show the effect of this variation on owner-manager wealth
- Collecting data on this is hard, but seems first-order to support their story

Comment 3: Incentives Behind their Result $\Rightarrow$ Two Problems: Second

- The issue seems more puzzling for the marginal investor attracted to the firm
- Why would that investor be attracted by that additional returns pre-IPO, if they internalize it will hurt the firm value?
- Do these marginal investors end up being important in the firm so that they also benefit from owner-manager capture?
- Otherwise, why would they systematically be "fooled" by the pre-IPO returns?
- Important to understand who these marginal investors are, their incentives and benefits
  - And show how pre-IPO returns shift the type of investor attracted to the firm
- Probably also a big data effort, but seems first-order to support the mechanism

Empirical Implementation

Comment 4: Unpacking the Mechanism

- Facts on effects on owner-manager and marginal investors
- Have IPOs of the sample of analysis already been decided and started 3 months before?
  - Would be important in order to isolate the intensive margin only
- Not sure about the evidence ruling out asymmetric information
  - Owner-manager could try to appear as being a high value firm pre-IPO, but end up not being that
- Heterogeneity exercises: Industry heterogeneity where agency problem might be more important
  - Industry heterogeneity of agency problems is actually highlighted by Jensen & Meckling (1976)

Final Ideas and Remarks

Further Ideas

- Effect of ownership concentration changes on productivity, investment and innovation
  - To highlight benefits-costs of agency problems of owner-manager firms
- Evaluate pass-through of these shocks pre-IPO on stakes, on: owners' wealth, marginal investors wealth, workers wages and suppliers. Could merge data with Compustat/Orbis
  - To evaluate who benefits from this strategic behavior of owner-managers
- Use their variation to study *what do investors know* when firms go public (Dickstein-Morales, 2018)

Final Remarks

- Interesting topic with a lot of economic insights, good data and clever research design
- Looking forward to future versions and more research in these topics