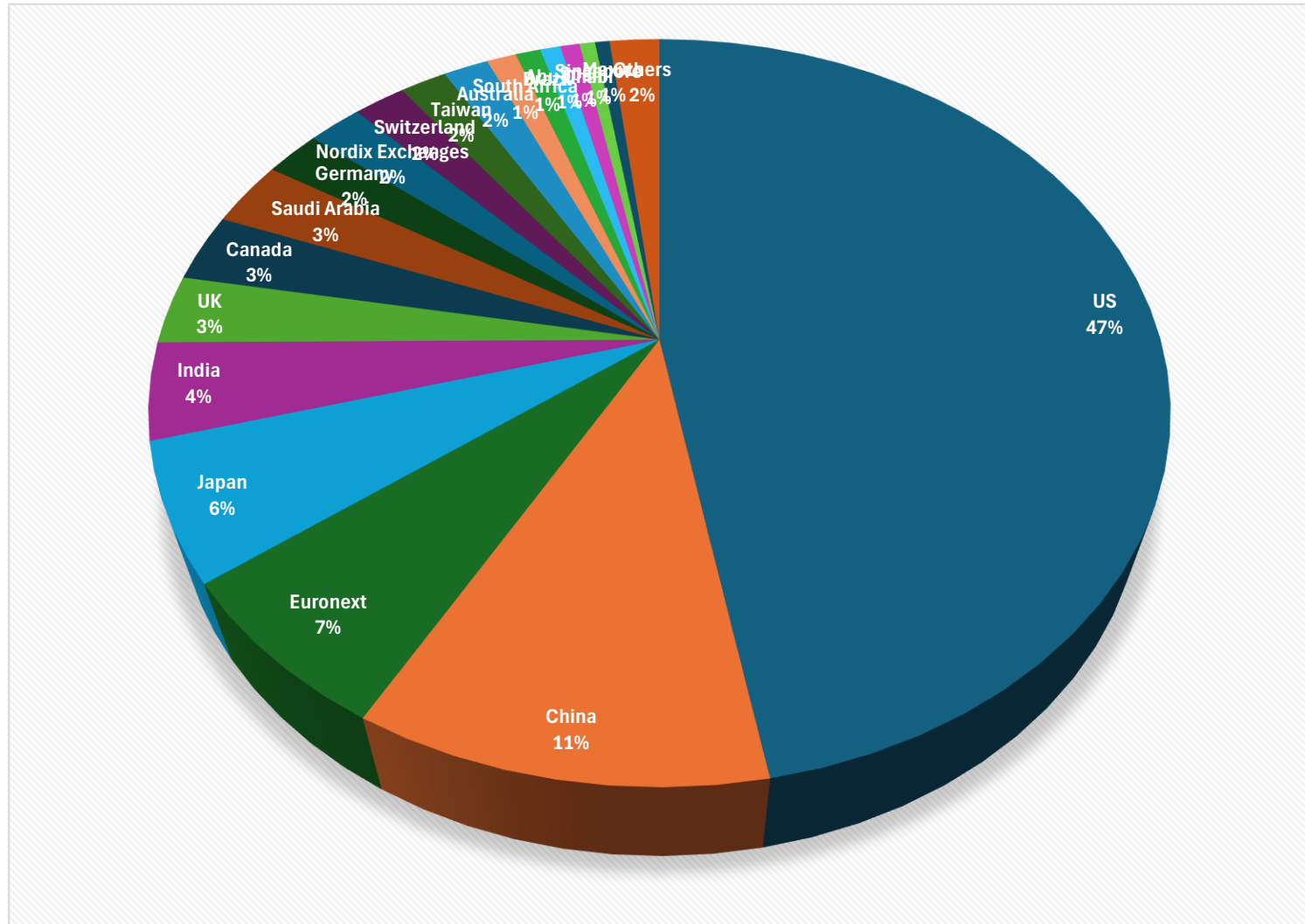


Lecture 9: International Corporate Governance

Reading: Eun & Resnick Ch 4 (10th ed.) & La Porta, Lopez-de-Silanes, Shleifer, and Vishny (LLSV 1998) is available on Blackboard.

World Market Capitalization, 2024



Source: World Federation of Exchanges, Apr 2024

Some Questions

- ❖ Why do some countries have so much bigger capital markets than others?
- ❖ Why do hundreds of companies go public in the United States/Asia every year, while only a few dozen went public in Europe over a decade?
 - In 2023, 56 (236) new domestic firms were listed in the US (China) via IPO; 62 (0) new foreign firms listed on US exchanges (China)
 - It was around 80 domestic listing across Europe
- ❖ Why is share ownership of large companies so dispersed in the US and UK and concentrated in other markets?

Separation of Ownership & Control

- ❖ Who owns companies? **Owners/Investors**
- ❖ Who runs companies? **Managers**
- ❖ When ownership and control of corporations are not aligned there is potential for conflicts of interest between owners and managers.
 - Are managers using company funds for the right purposes?
 - Are they investing in positive NPV projects?
 - Are they spending too much money on themselves?
 - Are they stealing?

Traditional Finance

- ❖ Modigliani and Miller (1958) distinguish debt and equity by the difference in the types of claims to cash flows.
- ❖ However, another defining feature of a security is the **RIGHTS** it brings to its owners
 - What rights do shareholders (the firm's owners) typically have?
 - What rights are bondholders (the firm's creditors) entitled to?
 - What is relationship between managers and owners that make this view important?

Shareholder & Creditor Rights

- ❖ The **RIGHTS** attached to securities become important when managers act in their own interests, instead of in shareholders'.
 - For example, the right to vote for directors on the board, or the right to repossess collateral.
- ❖ Otherwise, why would managers pay anything to shareholders or bondholders?
- ❖ And why would shareholders or bondholders provide any capital to them?

Do Legal Environments Matter?

- ❖ Does being a shareholder in China or France give an investor the same privileges as being a shareholder in the United States, Australia, or Mexico?
- ❖ Would a secured creditor in Germany fair as well when the borrower defaults as one in Sri Lanka or Italy, assuming the value of the collateral is the same in all cases?
- ❖ What do you think is the role of **enforcement** of these rights?

How to protect shareholder interests?

- ❖ Elect board of directors to represent shareholders' interests
- ❖ The use of takeover markets to remove inefficient managers
- ❖ Active and continuous monitoring by large blockholder
- ❖ Aligning managers and investor interests thru' executive compensation
- ❖ Clearly defined fiduciary duties for CEOs; the threat of lawsuits

Shareholder Protection

- ❖ Shareholder protection vary across the world.
 - The role legal origin – focus of the lecture
 - Dual class shares
 - In July 2017, FTSE Russell and S&P announced that they will no longer admit dual-class shares to their indices
 - Pyramid structures
 - A controlling shareholder exercises control of one company through ownership of at least one other listed company.
 - Cross-holdings
 - Two or more firms hold shares in each other
 - Role of controlling shareholders



Reddit, Inc.

Class A Common Stock

Feb. 22, 2024

Reddit, Inc. is offering _____ shares of its Class A common stock and the selling stockholders identified in this prospectus are offering an aggregate of _____ shares of Class A common stock. This is our initial public offering and no public market currently exists for shares of our Class A common stock. We will not receive any proceeds from the sale of shares of common stock by any of the selling stockholders. We anticipate that the initial public offering price per share of our Class A common stock will be between \$ _____ and \$ _____.

We have applied to list our Class A common stock on the New York Stock Exchange under the symbol "RDDT."

We have three classes of authorized common stock: Class A common stock, Class B common stock, and Class C common stock. The rights of the holders of Class A common stock, Class B common stock, and Class C common stock are identical, except with respect to voting and conversion rights. Each share of Class A common stock is entitled to one vote. Each share of Class B common stock is entitled to 10 votes and is convertible at any time into one share of Class A common stock. Each share of Class C common stock is entitled to no votes. The holders of our outstanding Class B common stock will hold approximately _____ % of the voting power of our outstanding capital stock after the completion of this offering, with our directors and executive officers and their affiliates holding approximately _____ %, after giving effect to the voting agreement to be entered into between Advance Magazine Publishers Inc., our principal stockholder, and Steven Huffman, our Chief Executive Officer and President and a member of our board of directors, and assuming no exercise of the underwriters' option to purchase additional shares to cover over-allotments.

We are an "emerging growth company" as defined under the U.S. federal securities laws and, as such, may elect to comply with certain reduced public company reporting requirements for this and future filings.



Atlassian Corporation Plc

Class A Ordinary Shares

Nov 9, 2015

This is an initial public offering of Class A ordinary shares of Atlassian Corporation Plc.

Following this offering, we will have two classes of ordinary shares, Class A ordinary shares and Class B ordinary shares. The rights of the holders of Class A ordinary shares and Class B ordinary shares are identical, except with respect to voting, conversion and transfer rights. Each Class A ordinary share is entitled to one vote. Each Class B ordinary share is entitled to ten votes and is convertible into one Class A ordinary share. The holders of our outstanding Class B ordinary shares will hold approximately _____ % of the voting power of our outstanding share capital following this offering.

Prior to this offering, there has been no public market for our Class A ordinary shares. It is currently estimated that the initial public offering price will be between \$ _____ and \$ _____ per share. We have applied to list our Class A ordinary shares on the NASDAQ Global Market under the symbol "TEAM".

We are an "emerging growth company" as that term is used in the Jumpstart Our Business Startups Act of 2012, and, as such, have elected to comply with reduced public company reporting requirements.

UBER Inc

❖ Extract from registration statement (*Apr 26, 2019*)

What We Do

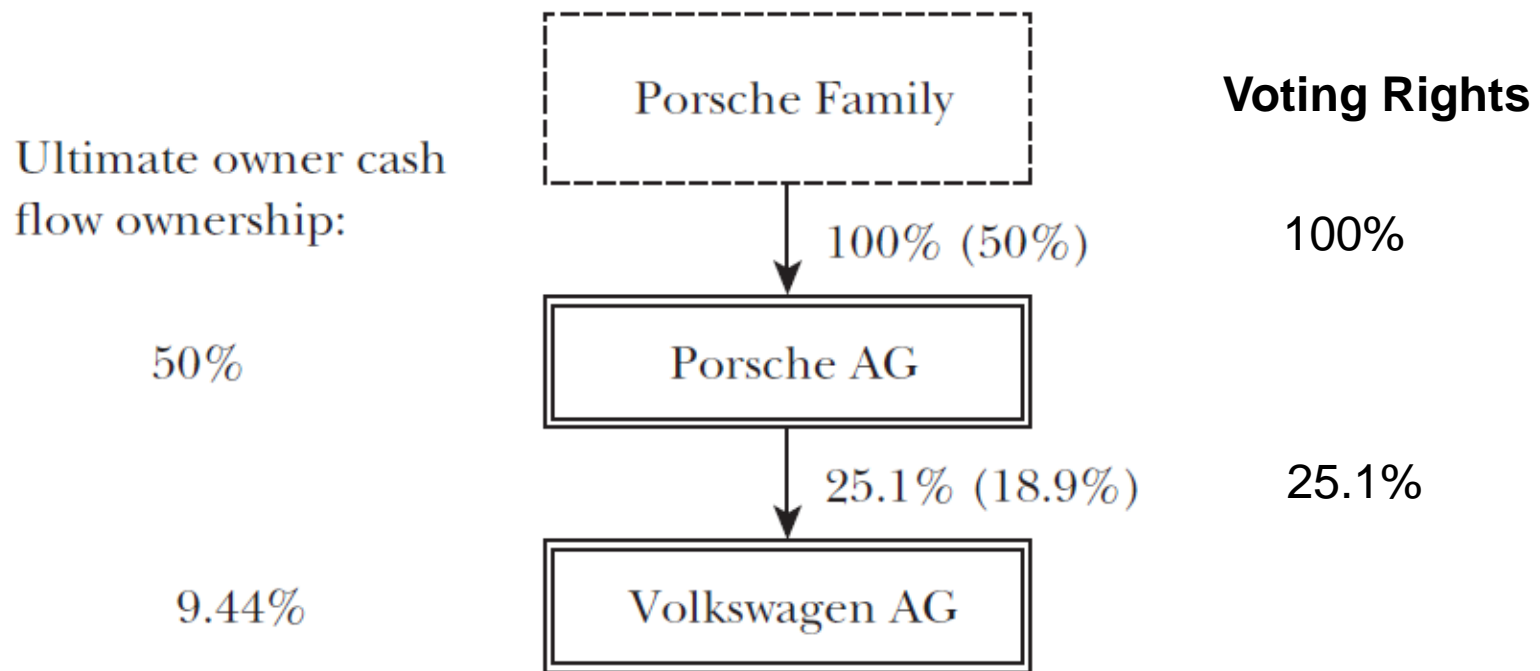
- ✓ One share one vote
- ✓ An independent Chairperson
- ✓ Regular evaluations of the composition of our board of directors and consideration of women and minority candidates as well as candidates with diverse backgrounds, experiences, and skills
- ✓ Standing Audit, Compensation, and Nominating and Governance Committees
- ✓ Board and standing committee meetings at least quarterly
- ✓ Annual elections for all directors
- ✓ Directors elected by majority vote in uncontested elections
- ✓ Board oversight of management succession planning
- ✓ Board and committee evaluation process
- ✓ Stock ownership guidelines for directors and executive officers

What We Don't Do

- ✗ Dual class stock
- ✗ Allow hedging or pledging of Uber stock by directors or employees
- ✗ Allow directors to serve on more than four other public company boards, or more than one other public company board if the director is also our Chief Executive Officer or the chief executive officer of another public company
- ✗ Have a shareholder rights plan ("poison pill")
- ✗ Have a classified board

VW-Porsche Pyramid, 2006

- ❖ Ownership and control is hard to disentangle. Voting rights is about how much say shareholders have.



Computing Porsche's ultimate voting rights in VW:

Weakest link = minimum (25.1%, 100%) = 25.1%

Last link = 25.1%

The “Law and Finance” view

- ❖ The Law and Finance view recognizes that the rights promised by stocks and bonds are only meaningful and secure if the legal system provides **rights written into laws** and a **means for their enforcement**.
- ❖ How could variation in investor protections across countries explain cross-country variation in:
 - the ability of firms to raise external capital?
 - the ability of firms (and the economy) to grow and prosper?

How do laws vary across countries?

- ❖ For this we need to measure the laws protecting security holders as well as the quality of their enforcement.
 - Shareholder Rights (**Anti-director Rights**)
 - Shareholders exercise their power by **voting** (for directors and on major corporate decisions). Thus, this measure will capture how strongly the legal system favors minority shareholders against either managers or dominant shareholders in the corporate decision-making process.
 - Creditor Rights
 - More complex to determine because there are many kinds of creditors (junior, senior, secured, unsecured). The perspective of the senior, secured creditor assumed here.
 - Also, need to assess rights in both *liquidation* as well as in *reorganization*.

Shareholder Rights Index

- ❖ The Issue is how to measure power shareholders have to make sure managers don't steal the firm's assets or make bad decisions.
 - Each share owned carries one vote.
 - The country allows shareholders to **mail** their proxy vote to the firm.
 - Shareholders are not required to deposit their shares prior to the general shareholder's meeting.
 - Cumulative voting or proportional representation of minorities in board is allowed

Shareholder Rights Index

- ❖ The index continued..
 - An oppressed minorities mechanism is in place
 - The right to challenge the director decisions in court (derivative suit)
 - The right to force the company to repurchase shares of minority shareholders who object to certain fundamental decisions (mergers or asset sales).
 - Shareholders have preemptive rights to buy new issues of stock that can be waived only by a shareholder's vote.
 - The shareholder has the right to call an extraordinary shareholder's meeting if own at least 10% of shares.

Creditor Rights Index

- ❖ Measure creditor's ability to seize the assets of the firm if the firm is unable to repay the loan or service the debt.
 - The country imposes restrictions, such as creditors' consent to file for reorganization
 - Reorganization delays payment of creditors and gives management power (e.g., Chapter 11 in U.S.)
 - Secured creditors are able to gain possession of their security once the reorganization petition has been approved (i.e., no automatic stay on assets)

Creditor Rights Index (2)

- ❖ The index continued..
 - Secured creditors are first in line when the firm enters bankruptcy.
 - As opposed to the government or employees
 - Management can be dismissed during re-organization
 - Creditors have more power than managers when the firm enters bankruptcy

Where do laws come from?

- ❖ Laws in different countries are not typically written from scratch, but rather transplanted--- voluntarily or otherwise--- from a few legal families or traditions.
- ❖ Commercial laws come from two broad traditions that have spread around the world by conquest, imperialism, outright borrowing, and more subtle imitation.
 - Civil Law
 - Common Law

Common Law (English Origin)

- ❖ Common Law originated in England a millennium ago and was formed chiefly by judges who resolved specific factual disputes.
 - Judicial precedents shape common law
- ❖ Spread to many British colonies, such as Australia, Canada, India, and the United States.
- ❖ Enforcement of common law is a private matter, accomplished through civil litigation (hence the importance of *stockholder litigation* in common-law countries, such as the U.S.)
- ❖ The penalty for violating common law is the award of damages to the party whose rights are proven violated.

Civil Law (French Origin)

- ❖ Civil Law, derived from Roman law, is the oldest, most influential, and widely distributed legal tradition around the world.
- ❖ Spread to most of the former colonies of France, Germany, Italy, Portugal, and Spain.
- ❖ Civil Law originates in governmental legislative bodies (who write “the code”) and is enforced by governments. It relies heavily on legal scholars to ascertain and formulate its rules.
- ❖ Code violation is a criminal matter, with criminal penalties (fines, imprisonment, restrictions on practice).

The Main Goal of the Study

- ❖ Show that shareholder and creditor protections (legal rights and enforcement of those rights) vary substantially across countries, and more generally, across legal origins. Find that:
 - French civil-law countries offer the weakest investor protections.
 - English common-law countries offer the strongest investor protections.

Shareholder Rights Worldwide

Country	One Share- One Vote	Proxy by Mail Allowed	Shares Not Blocked before Meeting	Cumulative Voting/ Proportional Representation	Oppressed Minority	Preemptive Right to New Issues	Percentage of Share Capital to Call an Extraordinary Shareholder Meeting	Antidirector Rights
A. Shareholder Rights (1 = Investor Protection Is in the Law)								
Australia	0	1	1	0	1	0	.05 ^a	4
Canada	0	1	1	1	1	0	.05	5
Hong Kong	0	1	1	0	1	1	.10	5
India	0	0	1	1	1	1	.10	5
Ireland	0	0	1	0	1	1	.10	4
Israel	0	0	1	0	1	0	.10	3
Kenya	0	0	1	0	1	0	.10	3
Malaysia	1	0	1	0	1	1	.10	4
New Zealand	0	1	1	0	1	0	.05	4
Nigeria	0	0	1	0	1	0	.10	3
Pakistan	1	0	1	1	1	1	.10	5
Singapore	1	0	1	0	1	1	.10	4
South Africa	0	1	1	0	1	1	.05	5
Sri Lanka	0	0	1	0	1	0	.10	3
Thailand	0	0	1	1	0	0	.20 ^b	2
United Kingdom	0	1	1	0	1	1	.10	5
United States	0	1	1	1	1	0	.10	5
Zimbabwe	0	0	1	0	1	0	.05	3
English-origin average	.17	.39	1.00	.28	.94	.44	.09	4.00

TABLE 2
SHAREHOLDER RIGHTS AROUND THE WORLD

Country	One Share– One Vote	Proxy by Mail Allowed	Shares Not Blocked before Meeting	Cumulative Voting/ Proportional Representation	Oppressed Minority	Preemptive Right to New Issues	Percentage of Share Capital to Call an Extraordinary Shareholder Meeting	Antidirector Rights
A. Shareholder Rights (1 = Investor Protection Is in the Law)								
Indonesia	0	0	1	0	0	0	.10	2
Italy	0	0	0	0	0	1	.20	1
Jordan	1	0	1	0	0	0	.25	1
Mexico	0	0	0	0	0	1	.33	1
Netherlands	0	0	0	0	0	1	.10	2
Peru	1	0	1	1	0	1	.20	3
Philippines	0	0	1	1	1	0	open	3
Portugal	0	0	1	0	0	1	.05	3
Spain	0	0	0	1	1	1	.05	4
Turkey	0	0	1	0	0	0	.10	2
Uruguay	1	0	0	0	1	1	.20	2
Venezuela	0	0	1	0	0	0	.20	1
French-origin average	.29	.05	.57	.29	.29	.62	.15	2.33

TABLE 2
SHAREHOLDER RIGHTS AROUND THE WORLD

Country	One Share– One Vote	Proxy by Mail Allowed	Shares Not Blocked before Meeting	Cumulative Voting/ Proportional Representation	Oppressed Minority	Preemptive Right to New Issues	Percentage of Share Capital to Call an Extraordinary Shareholder Meeting	Antidirector Rights
B. Tests of Means (<i>t</i> -Statistics)								
Common vs. civil law	-.72	3.03*	4.97*	.15	5.59*	-.91	1.48	5.00*
English vs. French origin	-.87	2.82*	3.87*	-.05	5.45*	-1.08	-2.53**	4.73*
English vs. German origin	-.85	3.29*	5.00*	.00	2.83*	.46	2.54**	3.59*
English vs. Scandinavian origin	1.84***	.50	.00	2.55**	17.00*	-1.09	-1.00	1.91***
French vs. German origin	-.22	1.00	-1.78***	-.22	-.96	1.23	2.64**	.00
French vs. Scandinavian origin	2.83**	-1.37	-3.87*	2.82**	2.83	-.48	2.43**	-1.06
German vs. Scandinavian origin	1.58	-1.00	-5.00*	1.58	2.23***	-1.27	-4.62*	-1.08

This table asks: Are the numbers we see for common-law countries different from civil-law countries? That is, are the *averages* statistically different from each other?

Creditor Rights Worldwide

CREDITOR RIGHTS AROUND THE WORLD

Country	No Automatic Stay on Assets	Secured Creditors First Paid	Restrictions for Going into Reorganization	Management Does Not Stay in Reorganization	Creditor Rights	Legal Reserve Required as a Percentage of Capital
A. Creditor Rights (1 = Creditor Protection Is the Law)						
Australia	0	1	0	0	1	.00
Canada	0	1	0	0	1	.00
Hong Kong	1	1	1	1	4	.00
India	1	1	1	1	4	.00
Ireland	0	1	0	0	1	.00
Israel	1	1	1	1	4	.00
Kenya	1	1	1	1	4	.00
Malaysia	1	1	1	1	4	.00
New Zealand	1	0	1	1	3	.00
Nigeria	1	1	1	1	4	.00
Pakistan	1	1	1	1	4	.00
Singapore	1	1	1	1	4	.00
South Africa	0	1	1	1	3	.00
Sri Lanka	1	0	1	1	3	.00
Thailand	1	1	0	1	3	.10
United Kingdom	1	1	1	1	4	.00
United States	0	1	0	0	1	.00
Zimbabwe	1	1	1	1	4	.00
English-origin average	.72	.89	.72	.78	3.11	.01
B. Tests of Means (t-Statistics)						
Common vs. civil law	2.65*	1.04	1.86***	4.13*	3.61*	-4.82*
English vs. French origin	3.06*	1.75**	1.89***	3.55*	3.61*	-5.75*
English vs. German origin	.25	-1.46	1.74***	2.10**	1.43	-5.21*
English vs. Scandinavian origin	1.83***	-1.46	-.11	7.71*	1.71***	-5.90*
French vs. German origin	-1.85***	-3.20*	.37	-.32	-1.29	-2.14**
French vs. Scandinavian origin	.05	-3.20*	-1.18	2.54**	-.60	.59
German vs. Scandinavian origin	1.27	.00	-1.26	1.58	.63	1.37

The Quality of Law Enforcement

- ❖ Efficiency of the Judicial System
 - ❖ Rule of Law
 - ❖ Corruption
 - ❖ Risk of Expropriation
 - ❖ Repudiation of Contracts by Government
- ❑ Also, include a measure of the **quality of accounting standards**

Luckin debacle shakes investor faith in New York's China listings

Implosion in coffee chain's stock puts corporate governance risks back in spotlight



The Luckin debacle has thrown a spotlight back on the accounting risks faced by investors in US-listed Chinese companies © REUTERS



April 13, 2020 1:13 am by **Hudson Lockett**, **Thomas Hale** and **Henny Sender** in Hong Kong

Luckin Coffee's implosion has shattered the faith of some international investors when it comes to Chinese companies [listed](#) on the world's biggest stock exchange.

The New York-traded shares of the coffee chain — which was often touted as China's Starbucks rival — have [tumbled](#) more than 80 per cent since it was revealed that an internal investigation found hundreds of millions of dollars of its sales last year were “fabricated”. Trading in the stock is currently frozen.

The debacle has turned the spotlight back on the accounting risks faced by investors in US-listed Chinese companies, and provided further ammunition for Washington's China hawks.

Investors wake up to Luckin's alleged fraud

Luckin Coffee share price in \$



Source: Bloomberg
© FT

China's Luckin Coffee to Pay \$180 Million to Settle Accounting-Fraud Claims

SEC findings tally with Wall Street Journal reporting of firm's schemes to fake sales and expenses

Luckin Coffee Inc. LKNCY -0.31% ▼ has agreed to pay \$180 million to settle regulatory claims that it cooked its books to make growth appear more robust and meet earnings targets.

The Securities and Exchange Commission announced the penalty on Wednesday, eight months after the Chinese company disclosed that some of its officers fabricated sales in 2019. Luckin neither admitted nor denied the SEC's fraud claims, which were filed in Manhattan federal court. The settlement is subject to a federal judge's approval.

Luckin intentionally faked more than \$300 million in retail sales from April 2019 to January 2020 by using purported individual customer accounts and related parties and shell companies, the SEC said. The company also fabricated 1.3 billion yuan, or \$196 million, of expenses by paying 13 purported suppliers of raw materials, human resources and delivery services, according to the SEC.

The SEC's findings confirmed details of the schemes reported by The Wall Street Journal in May.

Holding Foreign Companies Accountable Act (HFCAA) took effect Dec. 18, 2020.

The law allows banning foreign companies from U.S. exchanges if their auditors haven’t been inspected by American regulators (Public Company Accounting Oversight Board, PCAOB) for three consecutive years.

The statute requires the PACOB to “identify public companies that have retained a registered public accounting firm to issue an audit report where the firm has a branch or office that: (1) is located in a foreign jurisdiction, and (2) the Public Company Accounting Oversight Board (“PCAOB”) has determined that it is unable to inspect or investigate completely because of a position taken by an authority in the foreign jurisdiction.”

Issuer Name	CIK	Date conclusively identified
BeiGene, Ltd.	1651308	March 30, 2022
Yum China Holdings, Inc.	1673358	March 30, 2022
Zai Lab Limited	1704292	March 30, 2022
ACM Research, Inc.	1680062	March 30, 2022
HUTCHMED (China) Limited	1648257	March 30, 2022
Weibo Corporation	1595761	April 14, 2022
Futu Holdings Limited	1754581	April 21, 2022
Nocera, Inc.	1756180	April 21, 2022
IQIYI, Inc.	1722608	April 21, 2022
Baidu, Inc.	1329099	April 21, 2022

Alibaba Group Holding Limited	1577552	August 22, 2022
Boqii Holding Limited	1815021	August 22, 2022
Deswell Industries, Inc.	946936	August 29, 2022
Xinyuan Real Estate Co., Ltd.	1398453	August 29, 2022
Uxin Limited	1729173	August 29, 2022
Global Cord Blood Corporation	1467808	September 14, 2022
AMTD Digital Inc.	1809691	September 28, 2022
Quhuo Limited	1781193	October 6, 2022
China Health Industries Holdings, Inc.	1309057	October 21, 2022
Hollysys Automation Technologies Ltd.	1357450	October 21, 2022
New Oriental Education & Technology Group Inc.	1372920	October 31, 2022
GSG Group Inc.	1668523	November 9, 2022
MINISO Group Holding Limited	1815846	November 18, 2022
CLPS Incorporation	1724542	November 18, 2022
Bit Brother Ltd	1543268	December 5, 2022
Missfresh Limited	1851682	December 13, 2022
Leader Capital Holdings Corp.	1715433	February 1, 2023

Source: SEC website

TABLE 5
RULE OF LAW

COUNTRY	ENFORCEMENT VARIABLES					ACCOUNTING:	GNP PER CAPITA (U.S. \$)
	Efficiency of Judicial System	Rule of Law	Corruption	Risk of Expropriation	Risk of Contract Repudiation	Rating on Accounting Standards	
	B. Tests of Means between Origins (<i>t</i> -Statistics)						
Common vs. civil law	1.27	-.77	.39	-.46	-.51	3.12*	-.94
English vs. French origin	2.65*	.51	1.79***	.90	1.06	4.66*	.85
English vs. German origin	-.41	-1.82***	-.93	-2.19**	-2.79*	2.22**	-2.86*
English vs. Scandinavian origin	-3.78*	-15.57*	-5.38***	-2.06**	-2.26**	-1.05	-3.24*
French vs. German origin	-2.53*	-2.55*	-2.49*	-3.20*	-3.90*	-2.10**	-3.79*
French vs. Scandinavian origin	-9.34*	-20.80*	-9.77*	-2.94*	-3.17*	-3.32*	-4.28*
German vs. Scandinavian origin	-2.06***	-11.29*	-2.88*	-.63	.10	-2.66**	-.36

QUESTION: Are the *averages* for common-law vis-à-vis civil law statistically different from each other?

Large Shareholders

- ❖ Large Shareholders have incentive to monitor (e.g., Elon Musk's initial Twitter stake of 9.2%).
- ❖ Demsetz and Lehn (1985) – In uncertain environments it is more difficult to monitor, so ownership concentration should be higher.
- ❖ Hypothesis: Ownership in countries with weak investor protections should be more concentrated because:
 - More capital is needed to exercise control rights over management (prevent managers from expropriating the firm's assets).
 - Small (minority) shareholders might be willing to buy corporate shares only at very low prices that make it unattractive for firms to issue shares to the public.

TABLE 7
OWNERSHIP OF 10 LARGEST NONFINANCIAL DOMESTIC FIRMS BY LARGE
SHAREHOLDERS: CROSS SECTION OF 49 COUNTRIES

COUNTRY	OWNERSHIP BY THREE LARGEST SHAREHOLDERS		AVERAGE MARKET CAPITALIZATION OF FIRMS (Millions of U.S. \$)
	Mean	Median	
A. Ownership			
Australia	.28	.28	5,943
Canada	.40	.24	3,015
Hong Kong	.54	.54	4,282
India	.40	.43	1,721
Ireland	.39	.36	944
Israel	.51	.55	428
Kenya	na	na	27
Malaysia	.54	.52	2,013
New Zealand	.48	.51	1,019
Nigeria	.40	.45	39
Pakistan	.37	.41	49
Singapore	.49	.53	1,637
South Africa	.52	.52	6,238
Sri Lanka	.60	.61	4
Thailand	.47	.48	996
United Kingdom	.19	.15	18,511
United States	.20	.12	71,650
Zimbabwe	.55	.51	28
English-origin average	.43	.42	6,586

TABLE 7
OWNERSHIP OF 10 LARGEST NONFINANCIAL DOMESTIC FIRMS BY LARGE
SHAREHOLDERS: CROSS SECTION OF 49 COUNTRIES

	OWNERSHIP BY THREE LARGEST SHAREHOLDERS		AVERAGE MARKET CAPITALIZATION OF FIRMS (Millions)
	B. Tests of Means (<i>t</i> -Statistics)		
Common vs. civil law	-1.10	-.91	1.00
English vs. French origin	-3.24*	-2.68*	1.22
English vs. German origin	1.38	1.31	-.20
English vs. Scandinavian origin	1.05	1.22	.46
French vs. German origin	3.87*	3.29*	-2.61**
French vs. Scandinavian origin	3.93*	3.32*	-.61
German vs. Scandinavian origin	-.24	-.06	1.05

Overall Tables 7 & 8 show

- ❖ “Dispersed ownership in large public companies is simply a myth. Even in the U.S., the average for the 10 most valuable companies is 20 percent.”
- ❖ “The finance textbook model of management faced by multitudes of dispersed shareholders is an exception and not the rule”.
- ❖ “The results support the idea that heavily concentrated ownership results from, and perhaps substitutes for, weak protection of investors in a corporate governance system.”
- ❖ “...these firms [in countries with weak investor protection] probably face difficulty raising equity finance, since minority investors fear expropriation by managers and concentrated owners.”

What matters for external finance?

- ❖ LLSV (1997)[#] relates the same investor protection measures (shareholder and creditor rights indices) to the ability of companies to raise external capital.
- ❖ English Common Law vs French Civil Law
 - External Cap/GNP:
 - 60% vs. 21%
 - Domestic firms per 1 million people:
 - 35 vs. 10
 - IPOs per 1 million people:
 - 2.2 vs. 0.19

Note: All of the above means are statistically significantly different.

[#] Different study by the same authors.

Is LLSV (1998) “settled science”?

- ❖ It turns out that the answer to this is **No!!**
- ❖ Holger Spamann of Harvard Law School critiques the construction of LLSV’s Anti-Director index
 - Faults the original paper for not using lawyers in each country to describe the various aspects of their legal system
 - Re-collects data for 46 out of the 49 countries studied
 - 33 out of 46 required corrections to the index.
 - Correlation btw “old” & “corrected” index is 0.53
- ❖ Outcome: major conclusions of LLSV **no longer hold.**