Discussion of "Adapting to Radical Change: The Benefits of Short-Horizon Investors"

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Classic Question in Corporate Finance: Does Ownership Matter?

- Usual Answer: Yes!
- Usual Logic: More ownership, especially by long-term blockholders, increases value.
  - Better incentives of managers to increase value
  - Better incentives of blockholders to monitor
- Giannetti-Yu Answer: Yes!
- Giannetti-Yu Logic: Short Term Shareholders, because they will sell if they are unhappy, encourage managers to make better decisions.

What Giannetti-Yu Paper Does

- Considers "shocks" to companies coming through changes in tariffs.
- Looks at the way that firms respond to these tariffs.
- Finds that firms with more short-term shareholders respond more effectively than firms with longer-term shareholders.

My Reaction

- This paper turns the literature on its head.
- Previously, literature presumed long-term shareholders were more beneficial than short-term shareholders.
- This paper argues otherwise, it claims that there can be advantages of short term shareholders as well.

Horizon vs. Concentration

- This paper focuses on the horizon of investors.
- Prior literature focuses on the concentration of investors.
- The two are related; blockholders tend to be long-term investors, but not always.
- Do the empirics in this paper control enough for concentration?
- How about the identity of investors? Are individual investors different from institutional investors?
- Theoretically, which should be more important and under what circumstances?

Empirical Design Focuses on Firms' Responses to Negative Shocks

- Why is this the right thing to look at?
- Plausible that the same logic can work in good times and average times as well.
- What happens if you rereun the Morck/Shleifer/Vishny regression using horizon rather than concentration:
  - $$q = f\,(\text{ownership})$$
- More general question: How does the horizon of investors affect investors' actions, and also the actions of firms' managers?
- Has the literature on ownership and performance been focusing on the wrong thing?

International Considerations

- Paper is by a Chinese and an Italian (who works in Sweden) and is being presented in Israel.
- Why US data?
- Isn't this a worldwide question?
- There are important differences in shareholder horizon and effects on managers across countries.
- A good Korean friend just told me that in Korea, without a large, long-term blockholder who owns at least 20%, corporate governance would be hopeless there.

Endogeneity

- Endogeneity is the profession's current *obsession*.
- I have argued elsewhere that governance is endogenous in an important way.
- But for this paper, it seems a bit overblown; the shareholders in any firm are who they are and it is really important to understand what they do.
- I'd rather see authors' attention focus more on what the results mean, and the extent it is the investors' horizons rather than something else, that explain their results.

Overall

- Very provocative idea/results.
- How does the horizon of shareholders affect their actions, and managements' responses?
- Paper should spend more time trying to distinguish the effect of investor horizon from their concentration.
- Do authors think that short-term shareholders matter when firms receive negative shocks, but long-term shareholders add more value at other times?
  - Paper seems to be written that way.
  - If authors think this is true, then they should state/develop the idea more.