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# Global Corporate Governance Colloquia 2019

**7-8 June 2019**

House of Finance

Goethe University Frankfurt

8th June 2019

Protocol – Session 3
Why Are Firms with More Managerial Ownership Worth Less.

Speaker: René Stulz
Discussant: Alon Brav

**René M. Stulz** is the Everett D. Reese Chair of Banking and Monetary Economics at The Ohio State University and a Research Associate at the NBER. He is a past president of the American Finance Association and past editor of the Journal of Finance. He has published widely in finance and economics journals. He is the author of Risk Management and Derivatives and a co-author of the Squam Lake Report: Fixing the Financial System. He is a director of Banque Bonhote and a vice chairman of the Board of Trustees of the Global Association of Risk Professionals.

**Alon Brav** is the Peterjohn-Richards Professor of Finance at the Fuqua School of Business, Duke University. Professor Brav obtained his Ph.D. in Finance from the University of Chicago Booth School of Business. He joined the Fuqua Faculty in 1997. Professor Brav is faculty research associate at the National Bureau of Economic Research (NBER), Corporate Finance Program. He is an associate editor at the Journal of Finance, Research member European Corporate Governance Institute (ECGI), and senior fellow at the Harvard Law School Program on Corporate Governance. Professor Brav currently teaches Corporate Restructuring in the Daytime MBA program and Global Capital Markets in the Weekend Executive MBA program.

**Protocol of Session 3, Saturday 8 June (5.00 p.m. – 6.00 p.m.)**

In the first part of the session, a joint paper by Kornelia Fabisik, Rüdiger Fahlenbrach, René M. Stulz, and Mirco Rubin was presented. The paper investigates the relationship between ownership and firm value. When only the largest firms are considered, findings of prior literature suggesting a positive relationship between the two variables is confirmed. However, when the full sample consisting of approximately 50,000 firm-year observations is taken into account a reversed relationship is revealed. Past performance and liquidity of the firms' stocks are seen to explain the findings. Highly liquid stocks are typically associated with successful firms. Moreover, directly after a firm's IPO, managers commonly hold more shares of the firm than intended to in the long-run. Thus, managers of successful firms can relatively easily decrease their ownership after the IPO. On the contrary, it is more complicated, and even more costly, for managers of unsuccessful firms, which explains the observed negative relation between ownership and firm value.

In the second part of the session, the discussion, Alon Brav expressed his appreciation for the paper's high quality, and gave rise to a number of questions related to the theoretical mechanism underlying the paper. Among others, the role of firms' compensation committees in the context of optimal managerial ownership and illiquidity was addressed. Subsequently, the management's potential anticipation of such dynamics was discussed, and corresponding implications for Tobin's q were debated. Given the paper's approach to measure liquidity and performance, an emphasis was put on implicit assumptions about managerial turnover and the incentives that are set for new members of the management team. At a later stage, the question was raised if percentage ownership is a good measure to capture managerial incentives, and the causal link from managerial ownership to Tobin's q was elaborated in more detail.