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Massimo Massa , Alminas Žaldokas

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Information Transfers among Co-owned Firms[#]

[a]Massimo Massa, [b]Alminas Žaldokas

[a]Finance Department, INSEAD, Boulevard de Constance 77300 Fontainebleau, France, email: massimo.massa@insead.edu, phone +33 1 6072 4481

[b]Department of Finance, The Hong Kong University of Science and Technology, Clear Water Bay, Kowloon, Hong Kong, email: alminas@ust.hk, phone: +852 23587665.

Abstract

We study how lenders in blockheld firms exploit the information on the other holdings of equity blockholders to learn their attitude towards creditors. In the presence of the conflict of interest between lenders and equityholders, information on how blockholders behave in the other firms they control provides the lenders key information about potential blockholder behavior. We test this hypothesis using data on US public firms over the 2001–2008 period. We show that the financial conditions of these co-owned firms affect how lenders value other firms in which the owner has a major stake. Bad news on credit quality in co-owned firms raise the firm's credit risk. Our identification is based on the instrumental variables estimation where we instrument the changes in credit risk of co-owned firms by the natural disaster events in the counties of co-owned firm headquarters.

JEL Classification: G32, G33

Keywords: information transfer, blocks, cost of debt, comovement

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