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Ownership structure, control contestability, and corporate debt maturity♣

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Abstract

The corporate governance literature has shown that self-interested controlling owners tend to divert corporate resources for private benefits at the expense of other shareholders. Such behavior leads the controlling owners to prefer long maturity debt to short maturity debt, to avoid frequent monitoring by lenders, which creates conflict between controlling and minority shareholders over the maturity structure of debt. In this paper, we examine whether the presence of multiple large shareholders (MLS), beyond the controlling owner, helps to mitigate this conflict. Using a large data set of French publicly traded firms during the period 1998–2013, we find strong evidence that firms with MLS exhibit shorter debt maturity. This result suggests that MLS curb the extraction of private benefits by the controlling owner and reduce her preference for less monitoring through the use of longer maturity debt. The findings are robust to a number of checks, including addressing endogeneity concerns and using alternative sample compositions and alternative regression frameworks.

JEL classification: G30, G32, G34
Keywords: Ownership structure; Multiple large shareholders; Contestability; Debt maturity

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