



THE UNIVERSITY OF CHICAGO

Department of Statistics

MASTER'S THESIS PRESENTATION

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Blockholders and Monitoring

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ABSTRACT

This paper investigates how monitoring of blockholders impacts corporate outcomes. I use acquisition decisions to reveal effects of monitoring. Consistent with theories, I find that bidder firms held by blockholders experience significantly higher abnormal returns around the merger announcements. I further use various measures of the block size in order to test the monitoring effect. I show that there is positive and significant association between the ownership of the largest shareholder and abnormal returns. I document additional evidence in order to show that the superior M&A performance stems from monitoring, not from endogeneity or systematic ability to identify under-priced stocks. The presence of a blockholder raises probability of withdrawing bad bids. After successful mergers, the ownership of the largest shareholder increases or remains the same in the subsequent year. However, it decreases significantly when bidder firms withdraw good bids.