Three Essays on the Effect of Alternative Ownership Structures on Investment and Financial Constraints: An Empirical Investigation

This dissertation consists of three separate papers examining the relationship between investment, financial constraints and ownership structures.

In the first paper new and rich panel data for a large and representative sample of firms are used to estimate the sensitivity of access to capital to differing ownership structures. The investment behaviour of firms is examined in a dynamic setting in the presence of adjustment costs, liquidity constraints and imperfect competition. The empirical work is based on the derivation of Euler equations in the presence of symmetric and quadratic adjustment costs and both debt and equity constraints. Whereas the norm is to use ad hoc approaches to model these constraints, our alternative and more consistent approach leads to the inclusion of financial variables in the investment equation in first differences rather than in levels. The GMM estimates confirm the importance of financial factors in determining investment rates and suggest that firms owned by insiders, especially non-managerial employees, are more prone to be liquidity constrained than are others. Among the other groups, somewhat surprisingly, only domestic outsider owned firms display sensitivity to both measures of the availability of finance, with manager owned firms being sensitive to the availability of external finance, while state owned firms being sensitive to the availability of internal finance.

In the second paper we use a switching regression framework when sample separation is unknown and endogenous and firms are assumed to operate either in the financially constrained or in the financially unconstrained regime. The actual regime the firm is in is determined by a switching or selection function, which depends on those variables that theoretically determine the wedge between internal and external finance, the severity of information and agency problems and time-varying firm characteristics. Among main findings are: (i) separate regimes exist in investment behavior; (ii) the likelihood of being financially constrained is higher in firms that are recently privatized, small and where ownership is concentrated in the hands of insiders and the state; (iii) soft budget constraints lower the probability of a firm being financially constrained; (iv) the actual probabilities of operating in the financially constrained regime are calculated to be quite high and essentially stable (v) ownership structure affects investment beyond its indirect effects through financial constraints.

Finally, in the third paper the credit-rationing hypothesis in privately held firms is investigated using an error correction specification. The System GMM estimates confirm the importance of financial factors in determining investment rates and suggest that firms owned by insiders, especially non-managerial employees, are more prone to be liquidity constrained than are others.