Strategic Corporate Governance and Managing Cross-Ownership Structure: the Real Options Approach

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I. Introduction

The recent literature documents that corporate ownership structures differ across nations. The corporate ownership is dispersed in the Anglo-American nations, but it is concentrated in non-Anglo-American economies. Furthermore, in many emerging countries, the national economies are dominated by a few family-controlled conglomerates dominate the wealth [Claessens et al. (2000) and Johnson et al. (2000)]. Zingales (1994), Dyck and Zingales (2003), and Nenova (2003) argue that in such economies, controlling (dominant) shareholders enjoy significant private benefits by expropriating corporate resources from minority shareholders. Bebchuk (1999) further argues that when private benefits of control are large and control is thus valuable enough, the initial owner might elect to maintain a lock on control. La Porta et al. (1999) indeed presented empirical evidence that corporate ownership is more concentrated in weak shareholder protection countries than in strong shareholder protection countries.

La Porta et al. (1999) also indicated that, because the controlling shareholders extract corporate resources from minority shareholders, the firm values are discounted in such economies. Miller (1999) and Reese and Weisbach (2002) further reported that controlling shareholders forego cross-listing opportunities even if the cross-listings are expected to increase minority