FINANCE RESEARCH SEMINAR

"Creditor's holdup, releveraging, and the setting of private appropriation in a control contract between shareholders"

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Thursday, June 6th , 2019 – 14:00 – 15:30

Abstract:
Debt is analyzed in relation to the conflict between three parties, a controlling shareholder, outside investors and creditors. We follow Jensen and Meckling's (1976) and Myers' (1977) intuitions that a high leverage may result in excess value appropriation by creditors while at the same time acting to discipline private benefits appropriation. A contingent claim valuation model is used to show that debt is *also* a key governance variable because it can moderate or enhance private benefits and because incentivization triggers a transfer of value to creditors. We show that debt is a complex regulation tool in an agency contract approach, as it is simultaneously an expropriation device and a limitation tool. Debt is a disciplinary tool for shareholders, but to avoid a holdup by creditors, we also need to discipline the disciplinary tool.

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