

Discussion of

When Heirs Become Major Shareholders: Evidence on Tunneling and Succession through Related-Party Transactions

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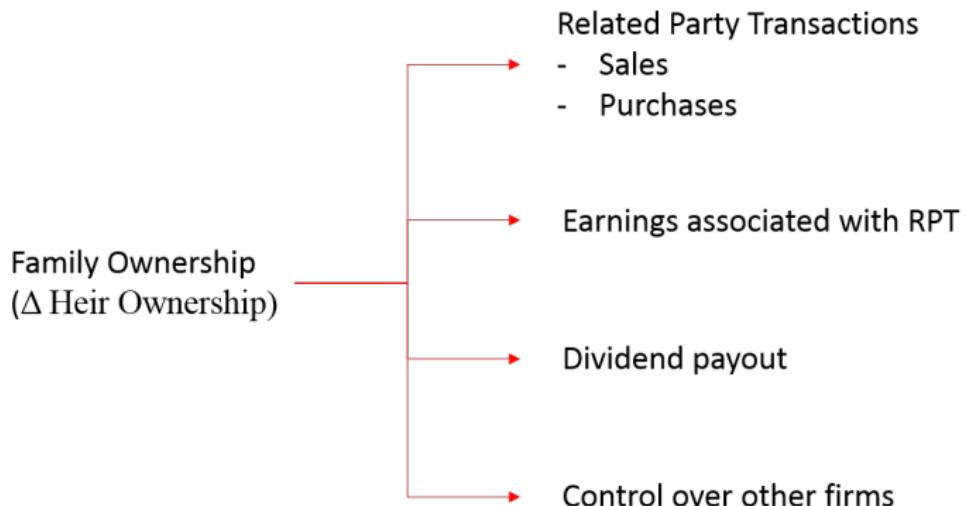
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What Does it Do?

- Related party transactions (RPTs) and ownership succession.
 - Set up a private firm controlled by heirs.
 - Transfer wealth from the group to this firm via RPTs.
 - The heirs then buy controlling stakes in the parent.



What Does it Find?

- Following the change in ownership, firms in which heirs become major shareholders:
 - Engage in more related party transactions relative to control firms
 - Earnings increase with RPTs
 - Dividends payout increase with RPTs
 - Marginal contribution to group control increases with RPTs
- Results are driven by related party sales and not related party purchases.

Falsification Tests

- Use treatment groups where non-heirs become a major shareholder.
Finds no increase in RPTs.
- Treat counterparties of the original treatment group as the new treatment group. These firms experience no change in earnings, dividends, and control after the treatment.

Comments

- What are the costs and benefits of various methods of transferring ownership?
- The assumption is that alternative methods are all very costly. Are they?
- Is transferring ownership via RPTs more efficient than transferring ownership via gifts, inheritance, or setting up of trusts.

Comments: Continued

- Ownership succession versus tunneling.
 - Would transfer of ownership via RPT be more efficient for some firms than others?
 - Ease of transfer of ownership and the incentives to engage in RPTs.
 - Cross-country differences in inheritance taxes should drive differences in how firms in various countries engage in RPTs to transfer ownership.
Do we see fewer transaction in countries with low inheritance taxes?
 - Or within country, changes in tax laws should drive the propensity to use RPTs to transfer ownership.
 - Changes in regulations that change the cost of an alternative method of transferring ownership...Shutting down alternative channels and the effect on RPTs as a means to transfer ownership.

Comments: Exogeneity of Ownership Changes

- Unobserved variables that drive ownership changes could also be causing related party transactions and associated earnings, dividend, and control changes.
- Family has information on which companies are going to be more important for the group.
- Mean reversion of earnings: Match control group firms on pre-treatment earnings.

Comments: Asymmetric Effects?

- Related party sales versus related party purchases
- Ownership increase versus ownership decrease

Comments: Falsification Tests

- Ownership changes by non-heirs: No effect on RPTs (and earnings, dividends, and control)
 - What drives ownership changes by non-heirs? Possibility of opportunistic ownership changes which could explain results.
- Counterparties as treatment firms:
 - This result is really puzzling. If family firms engage in tunneling, then counterparties should have exactly the opposite response. What happened to the idea of wealth transfer?

Conclusions

- The paper is addressing an important question. Great idea!
Ownership succession is highly under-researched.
- Some understanding of alternatives and how firms choose among different methods of transferring ownership would be helpful to readers.
- Also, some more direct tests to show that motivation behind what we observe is actually ownership transfer would help.