Essays on Law and Corporate Governance

My thesis is a collection of theoretical models that study the links between law and corporate governance. Specifically, I examine how a legal system affects the distribution of ownership and control and the choice of corporate governance mechanisms in a firm. I also study the efficiency implications of various legal rules.

My work differs from the previous literature in the field in two respects. First, I dissect different dimensions of law and account for the interdependences between the corporate governance mechanisms that are associated with these dimensions (they can be either substitutes or complements). Second, my models emphasize the importance of the costs associated with legal protection of shareholders.

The main contribution of my approach is showing that the effects of law are multifaceted and non-monotonic and go well beyond the traditional “law and finance” view that legal protection of investors is conducive to financial development.

In particular, in chapter 1 I show that when the cost of legal shareholder protection outweigh its benefits, weaker protection does not necessarily result in greater outside ownership concentration. Chapter 2 argues that, in contrast to increasing impartiality of judges, facilitating recourse to courts for shareholders that were expropriated by the management may lead to a less efficient choice of corporate governance mechanisms and to greater ownership concentration. Chapter 3 demonstrates that different dimensions of legal shareholder protection have qualitatively different impacts on the choice of firm-level corporate governance mechanisms by companies.

Our results suggest that any analysis of the impact of legal shareholder protection on ownership and corporate governance should dissect different facets of a legal system. Otherwise, it would risk overlooking potentially important effects of separate legal rules and mechanisms. Our work also demonstrates dangers of the “one-size-fits-all” (or “harmonization”) approach to corporate governance reform, as it shows that effects of separate legal mechanisms may qualitatively depend on the rest of the legal environment in a country.