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"Do Shareholder Rights affect Syndicate Structure? Evidence from a Natural Experiment"

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Abstract

Greater (Lesser) shareholder rights are likely associated with higher risk-shifting incentives, which in turn requires more (less) intensive monitoring by the lenders. We hypothesize that as shareholder rights are reduced, the need to form more concentrated (i.e. monitoring intensive) syndicates would be reduced as well. We use the passage of second generation antitakeover laws in the United States as an exogenous shock that reduced shareholder rights for the firms located in the states that adopted these laws. Using this natural experiment, we find that loan syndicates became significantly more diffused after the passage of these laws. These natural experiment results are confirmed using a large sample of bank loans made during the 1990-2007 period, where we employ G-Index of Gompers, Ishii, and Metrick (2003) as a measure of shareholder rights. We find that the lending syndicates for borrowers with low G-Index (i.e. high shareholder rights) are significantly more concentrated. Our results have important implications for understanding the link between corporate governance and the design of loan syndicate structure.

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