

Date of the event:

On Thursday 09th November 2010
From 01:00 PM to 2:00 PM

Location:

Luxembourg School of Finance
University of Luxembourg
4 Rue Albert Borschette
2nd Floor
Modigliani Miller Auditorium (E02-003)
L-1246 Luxembourg

Registrations:

- Free seminar (with lunch included)
- Registrations by email before December 06th, 2010
- At the following address : lsf-events@uni.lu

Information:

Ms Caroline Herfroy
Tel : +352 46 66 44 6335

<http://www.lsf.lu/index.php/eng/Research/Seminars-and-Workshops>



The LSF is pleased to invite you to the following lunch seminar:

Do Agency Relations mediate the Interaction between Firms' Financial Policies and Business Cycles?

*By Mr Charles-Henri Reuter
ESCP Europe, LSF, CEROS, STATEC*



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Do Agency Relations mediate the interaction between Firms' Financial Policies and Business Cycles?

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LSF Seminar

We investigate the interactions between firms' financial policies and expected business cycles, in listed firms, in Europe, and over 20 years. We show that these interactions are mediated by ownership structures.

Firms with strongly concentrated ownership, or under control, lead contra-cyclical policies, while firms with dispersed ownership lead somewhat pro-cyclical policies, supporting the traditional expectation that business cycles are of little direct relevance for financial policies.

Our theoretical considerations unfold from the idea that ownership dispersion implies a different mix in agency relations in the firm. It entails specificities in agency costs, opportunity benefits of managerial discretion, it fosters differing needs for disciplining through debt, different needs for signaling, and potentially different market timing behaviors by managers and incumbent shareholders. As a result different objectives and constraints foster different policies: firms with dispersed ownership conduct lean (i.e. procyclical) policies, while firms with concentrated ownership or under control favor some financial smoothing (i.e. contra-cyclical policies). We derive from these two propositions specific hypotheses about public debt issuance, private debt management, investment, dividend and cash-holding policies, as well as resulting changes in financial leverage. Evidence is mostly supportive of our hypothesizing and propositions.

Our proceedings are largely exploratory and our potential contribution extends to a number adjacent research questions including, among others, the analysis of performance effects of ownership concentration, the relative assessment of governance mechanisms, or still the investigation, in capital structure studies, of specific managerial behaviors and manager-specific information. Overall our emphasis on the potential relevance of business cycles for firm's financial policies comes timely following the recent financial turmoil.

