In November of 2002 Dean Avijit Ghosh announced the appointment of Michael S. Weisbach to the Stanley C. and Joan J. Golder Distinguished Chair in Corporate Finance. In his announcement, Dean Ghosh described Weisbach as one of the country’s leading academic experts in corporate finance. In fact, various aspects of corporate governance and finance have been at the center of his academic research since the time of his dissertation, “The Role and Selection of Boards of Directors.”

He attributes his abiding interest in the field to the takeover boom of the 1980s. It occurred to him then that most, if not all, of those takeovers were, in fact, caused by something lacking in the governance of the corporation targeted for takeover. Since that time his research has looked at the topic from many different points of view, all falling under the general rubric of corporate governance and finance.

A recent publication, “Protection of Minority Shareholder Interests, Cross-Listings in the United States, and Subsequent Equity Offerings” (co-authored by William A. Reese, Jr., of Tulane University and published in 2002 in The Journal of Financial Economics), examines the hypothesis that non-U.S. firms list themselves on U.S. stock exchanges in order to increase protections for their minority shareholders.

As capital markets have developed internationally, the decision of where a firm should list its securities has become an increasingly important decision. Legal protections of shareholder interests can affect valuation and the ability of firms to raise capital. Cross-listing in the United States affords shareholders of non-U.S. firms a number of protections, including the ability to benefit from shareholder lawsuits of U.S. shareholders over fraudulent statements made anywhere in the world and the requirement that the firm follow the U.S. generally accepted accounting principles (GAAP), register with the Securities and Exchange Commission, comply with exchange rules, and follow a number of takeover procedures that have the effect of benefiting small shareholders.

Since cross-listing can potentially affect the ability of a firm to extract private benefits from equity issues, the manager of a firm considering cross-listing its stock in the United States must balance the loss of private benefits against the benefits of increased access to foreign markets and an increase in shareholder protection.

Weisbach and Reese hypothesized that cross-listings would increase the number of equity issues -- regardless of shareholder protection. They also believed that the increase would be larger for cross-listings from countries with weak shareholder protection and that equity issues following cross-listings in the U.S. would tend to be in the U.S. for firms from countries with strong protection and outside the U.S. for firms from countries with weak protection. They examined these hypotheses using a database of firms that have cross-listed on U.S. exchanges and of their history of issuing equity.
The researchers documented a large increase in both the number and value of equity offerings following cross-listing. Firms from countries with weak shareholder protection were more likely to issue equity following the cross-listing than firms from countries with strong shareholder protections.

Furthermore, when the researchers looked at where the equity was issued, they found that firms from countries with a Civil Law tradition (which generally have weak shareholder protection at home) issue most of their equity outside the United States after cross-listing, while firms from countries whose laws are based on English Common Law (which tend to have strong shareholder protection at home) issue their equity primarily in the United States.

The results of Weisbach and Reese’s analysis suggest that following a cross-listing in the United States firms from countries with strong shareholder protection are more likely to issue equity in the United States. Firms with weak shareholder protection at home are more likely to issue equity outside the United States. These results support the view that firms from countries with weak shareholder protection appear to cross-list, among other reasons, to bond themselves voluntarily to U. S. securities and market regulations -- which allows them to raise capital more easily at home and elsewhere outside the United States.

Some of Weisbach’s other recent publications have dealt with hospital governance and its relationship to performance objectives and organizational form and boards of directors as an endogenously determined institution.

Since 2000 Professor Weisbach has been a Research Associate at the National Bureau of Economic Research. His work has been supported by research grants from the National Science Foundation and the Q Group. He is frequently cited in national and international media, including ABCNEWS.com, Barron’s, Bloomberg Business News, The Chicago Tribune, The Economist, The Financial Times, Forbes, The New York Times, USA Today, and the Wall Street Journal.

Weisbach also serves as the Director of the College’s Office for the Study of Private Equity and Entrepreneurial Finance. Although he has not published a great deal on private equity, the topic has always interested him as an aspect of corporate finance. The office, founded in Spring 2002 has already made two grants to Illinois faculty, one to Neil Pearson and the other to Anne Villamil and Stefan Krasa. On April 25 the office is sponsoring (along with the University of Chicago) a conference in Chicago that will bring together academics and practitioners in private equity to share their knowledge and stimulate interest in the field.

Professor Weisbach is looking forward to his formal investiture as the Golder Chair on May 16, when Illinois colleagues and administrators, along with colleagues from around the country, will gather to honor him and wish him well in his future academic endeavors.