

## DOCTORAL THESIS

### The endogeneity of the separation between the ownership right and control right, evidence from Hong Kong stock market

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## ABSTRACT

Numerous studies have used the wedge between control rights and cash flow rights as a proxy for the unobservable likelihood of expropriation (i.e., controlling shareholders tunneling resources from minority shareholders). Therefore, any negative relationship between the wedge and firm value found in previous studies can be interpreted as a relationship between the likelihood of expropriation and firm value. However, the results of this study suggest that the wedge is endogenous and related to firm characteristics, which can be classified into five categories: transparency, the firm's growth and capital requirement, risk, the pledgeability of cash flows and assets, and technology. Based on a sample of 4,185 firm-year observations from 1,202 public firms in the Hong Kong stock market from 2009 to 2013, this study examines whether the wedge remains a good proxy for expropriation if firm characteristics are considered. The results show that the significance of the wedge disappears when it is included alongside firm characteristics in the regressions, meaning that any power of the wedge to explain firm value can be attributed to the effect of these firm characteristics on firm value and not on the effect of the likelihood of expropriation. Moreover, a positive relationship between the wedge and firm value for family-controlled group firms is observed. Therefore, the wedge is not a good proxy for the likelihood of expropriation.

**Keywords:** control right, expropriation, ownership concentration, wedge

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