

Managing Ownership by Management

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Abstract

This paper provides a first analysis of a largely undocumented phenomenon of management creating firm value by managing the ownership of their own firms. It describes how firms in Japan purchase blocks of shares from insiders, hold them in treasury stock and sell them to strategic corporate investors. In the process, they address the Grossman Hart free-riding problem and its associated market failures by selling the shares at a discount, thereby allowing strategic buyers to capture some of the value they create. The paper shows that these management organized ownership transactions are on average value enhancing.