
Special Issue Description
Financial and legal institutions play key roles in facilitating governance through monitoring and mitigating information asymmetries, thereby enhancing international business and economic growth. Legal scholars emphasize that auditors, financial analysis, and banks serve as reputational gatekeepers that strongly influence capital market development (Coffee, 2002). Economists observe that legal institutions, such as courts and regulatory agencies, influence corporate finance and financial development by supporting private contractual arrangements (Beck and Levine, 2008). Yet, the development of financial and legal institutions varies widely across countries and political regimes. In this special issue, we seek to encourage diverse international business approaches to help foster the discourse on the relative importance of financial and legal institutions for corporate governance in different economies around the world. Further research is warranted on exactly how these institutions influence asymmetric information problems, how financial and legal institutions work in tandem and apart, and the differences in mechanism effectiveness in dissimilar economies and political regimes.

The law and finance literature highlights the importance of strong financial and legal institutions in promoting access to finance, economic development and growth. For example, stronger securities regulatory systems facilitate initial public offerings (La Porta et al., 1997, 1998, 2006), the spawning of new entrepreneurial start-ups (Klapper et al., 2006; Cumming and Knill, 2012) and growth in emerging markets (Senbet and Neube, 1997; Allen et al., 2005; Bekaedt et al., 2005). The success of these corporate endeavors, however, largely depends on the ability of corporate governance systems to mitigate agency problems and other governance conflicts specific to the particular economy (Shleifer and Vishny, 1997; John and Senbet, 1998; Gompers et al., 2003). Research shows that institutions may not only shape the nature of dominant governance problems in different countries, but also influence the efficacy of firm-level governance solutions (Chahine et al., 2012).

Recent work demonstrates that legal institutions by themselves fail to explain problems with corporate governance and more generally economic development in many markets around the world, such as China (Allen et al., 2005), India (Allen et al., 2012) and African countries (Allen et al., 2013). The success of certain countries, and the continued lack of success of others, remains largely unexplained on the basis of current understandings of the difficulties in separating ownership and control. In countries such as China, which often lack strong Western-style legal institutions and governance regulations, financial intermediaries establish other governance mechanisms that facilitate access to finance and economic growth.

Politics potentially distorts the role that legal and financial institutions play in corporate governance and skew the desired outcomes. Two dimensions within which politics can enhance or diminish the benefits that legal and financial institutions can provide in corporate governance around the world are: 1) the political economy of financial regulation (see, e.g., Rajan and Zingales, 2003), and 2) the value of political connections (among others, Fisman, 2001; Facio et al., 2006; Claessens et al., 2008). Studies document that firms benefit from political connections, yet the impact on the international business aspects of corporate governance remains unclear as does the net or aggregate impact on industry growth.

The goal of this special issue is to integrate the strengths of finance, law, and international business scholars to gain insights into resolving asymmetric information and the associated governance problems in international business.
2) “Political Ties across Country Borders” (with Meghana Ayyagari and Kelsey Syvrud)

This paper looks at whether foreign firms benefit from contributing politically. This is not obvious since there are laws in place to keep foreign “entities” from contributing and/or influencing the US political process. A loophole through US subsidiaries allows for the possibility, however. Measuring five different proxies for performance (ROA, ROE, BHR, Market Share and Productivity), we find that foreign firms benefit significantly from contributing to the US political process. Our results suggest that the mechanism through which this happens in government contracts. Foreign firms with political action committees (PACs) are granted more and larger contracts than US firms without PACs.

3) “Entrepreneurial Litigation and Venture Capital Finance” (with Doug Cumming and Bruce Haslem)
3rd round of revisions – awaiting decision, Journal of Financial and Quantitative Analysis

This paper empirically examines the interaction between entrepreneurial plaintiff firm litigation and venture capital (VC). The data indicate that, relative to non-plaintiffs, firms that litigate prior to (after) obtaining VC (1) receive financing from less (more) reputable venture capitalists (VCs), (2) are subject to greater (similar) oversight by VCs, (3) receive less (more) VC funding, (4) are more likely to exit through an initial public offering (than through an acquisition), and (5) when litigation occurs after VC financing, they are also less likely to be liquidated. The results are robust to different specifications, methodologies, and endogeneity checks.

4) “Does Internationalization of Investors Provide Value for Private Firms?” (with Doug Cumming and Kelsey Syvrud) Forthcoming, Journal of International Business Studies

We examine the impact of international venture capital investors on private firm success spanning 81 countries over the years 1995-2010. The data examined indicate that, relative to deals in which the investor base is purely domestic, private firms that have an international investor base have a higher probability of exiting via an initial public offering (IPO) and higher IPO proceeds. The evidence is consistent with the view that while the benefits of internationalization may be difficult and costly to manage, for those firms that succeed in managing cross-border coordination costs, there is potential value for an IPO firm. The benefits relative to the costs of internationalizing the investor base for private firms sold in acquisitions, by contrast, are much less pronounced. The most important source of this benefit appears to be access to capital.
5) “Negation of Sanctions: The Personal Effect of Political Contributions” (formerly “Political Contributions and the Severity of Government Enforcement”) (with Sarah Fulmer and Xiaoyun Yu)


We study the impact of political contributions on the severity of governmental enforcement outcomes for executives accused of committing fraud. We show that an increase in the dollar amount of contributions is associated with a reduction in civil and criminal penalties. Specifically, we find contributing executives receive lower monetary fines, fewer years ban as an officer or director of a public company, less time serving probation or prison sentences, as well as a lower probability of receiving the harshest penalty from each government agency. To establish causality, we exploit the plausibly exogenous variation in political contributions due to legislators’ voting behavior using the average politicians’ proportion of daughters. Our identification tests suggest a negative, causal effect of political contributions on the magnitude of penalty. Further analyses indicate that the net benefit accrued to shareholders that potentially arises from political contributions, earned leniency, as well as alternative discipline mechanisms do not explain the effect of political contributions on the severity of penalty. Furthermore, the role of political contributions is accentuated in cases where the SEC or the DOJ have more authority in the resolution of cases.

6) “International IPO Markets and a Foreign IPO Puzzle” (with Candace Jens, Gonul Colak and Kelsey Syvrud)


We analyze a firm’s decision to conduct initial public offerings (IPOs) internationally. Global IPOs (issuing both domestically and abroad) raise significantly more capital in the international markets than any other form of IPO. Though over eight percent of firms conducting an IPO between 1995 and 2010 choose to conduct Foreign IPO (issuing only abroad), this form of IPO fails to raise significantly more proceeds than matching IPOs with similar firm characteristics. This constitutes a “Foreign IPO Puzzle.” We consider several explanations for this puzzle. Our results are consistent with firms attempting to take advantage of hotter IPO markets, more efficient pricing, better legal environment, better opportunities for a subsequent SEO, and stronger currencies. None of these hypotheses fully explains away this puzzle.

7) “The Impact of Political Contributions and Nationality on FCPA Enforcement” (with Meghana Ayyagari and Kelsey Syvrud)

The purposes of this study are twofold: 1) expand upon the development of states, institutions, and international business by further investigating the relationship between U.S. politics and international firms, and 2) establish differences in firm performance and valuation between U.S. and international firms with and without U.S. political ties. Recent literature documents a positive relationship between political connections and firm performance/valuation. The last election experienced a surge of media sources accusing international firms of gaining an unwanted presence in U.S politics. This paper will fill a gap in the literature by examining whether firms not domiciled in the U.S. that contribute politically benefit differently
than U.S. firms. Further this study will examine what cross-country factors may impact the level to which political connections to the U.S. government might benefit foreign firms.

8) Cross-Border Opportunity Sets: An International Empirical Study Based on Ownership Types (with James Ang and Nathan Mauck)

This paper is the first, to our knowledge, to make the distinction between the investment opportunity set of real assets versus portfolio securities. We perform a large scale formal investigation of the investment opportunity set in global acquisitions based on ownership type over the period of 1985 – 2012. Compared to private acquirers, government acquirers have a much reduced investment opportunity set. Government acquirers invest in fewer target nations and industries, settle for smaller stakes, invest in countries with lower quality legal institutions and in nations with which political relations are more positive and see a 50% higher deal failure rate.