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The balance of power in closely held corporations

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Abstract

We analyze a closely held corporation characterized by the absence of a resale market for its shares. We show that the founder of the firm can optimally choose an ownership structure with several large shareholders to force them to form coalitions to obtain control. By grouping member cash flows, a coalition internalizes to a larger extent the consequences of its actions and hence takes more efficient actions than would any of its individual members. The model has implications for the optimal bundling of cash flow and voting rights, and for the optimal number and size of shareholders.



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JEL classification

G32; G34

Keywords

Closely held corporations; Ownership structure; Control dilution; Controlling coalition; One-share“one vote

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