Optimal ownership structure and monitoring in entrepreneurial firms

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We model the agency problem existing in an entrepreneurial firm between its founder and an outside investor and characterize the optimal corporate governance design. The analysis describes the relationship between two mechanisms: the level of monitoring exerted by the outside investor (short-run) and the ownership structure designed by the founder (long-run). Our results suggest that the optimal corporate governance design resembles a multiple large shareholders (MLS) structure in which a large investor counterbalances the power of the controlling owner. We derive testable implications regarding the separation between control and cash-flow rights and other firm-specific elements influencing the optimal governance structure.