Agency Conflicts Around the World*

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We incorporate agency conflicts in a dynamic model of corporate financing and use structural estimation to construct novel firm-specific governance indexes. Our agency cost estimates show that conflicts of interest between controlling and minority shareholders and between equityholders and creditors are large and exhibit sizable variation across and within countries. Legal origin, bankruptcy proceedings, and provisions for investor protection all affect agency costs, but their impact on the average firm is small compared to variation within country. Consistent with costly limited enforcement, investor protection provisions are more relevant for curtailing governance excesses than guarding the typical firm. Our governance indexes correlate with both financial indicators of performance and real variables, including GNI per capita, stock market capitalization, and private credit, confirming the effects of agency conflicts on real and financial outcomes.

JEL Classification: G32, G34

Key words: Capital structure, agency conflicts, corporate governance, structural estimation