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Review

A review on family ownership and information asymmetry

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The motivation for this review paper comes from the growing interest of researchers in governance mechanisms in emerging markets where family and concentrated ownership structures are ubiquitous. Specifically, in this review, we summarize and synthesize hypotheses and findings from different research studies to highlight how and why larger family ownership in a corporation engenders information asymmetry problems and how these problems affect minority shareholders. Towards the end of the review, we discuss some of the mechanisms that can be adopted by minority shareholders to reduce information asymmetry.

Key words: Information asymmetry, ownership structure, family business, agency costs, corporate disclosure policy, controlling shareholders.

INTRODUCTION

In the context of shareholders and managers of a corporation, information asymmetry can be characterized as the extent to which board of directors have more information about the company than investors as a group. A second characterization of information asymmetry is the extent to which the amount of information regarding the company varies from one group of investors to another (such as majority and minority shareholders) and thus provides the differentiation between the informed and uninformed investors (Watts and Zimmerman, 1986). The problem of information asymmetry in financial markets in general is of great interest to investors and researchers as information asymmetry affects efficient distribution of funds (Russel, 1976), result in credit rationing (Stiglitz and Weiss, 1988), disrupt insurance markets (Rothschild and Stiglitz, 1976; Wilson, 1977), lead to under-pricing of new securities (Myers and Majluf, 1984; Greenwald et al., 1984) and consequently hamper the development of financial capital markets.

A large number of antecedents of information asymmetry can be traced in the literature. However, in the present paper, we highlight the impact of family ownership on information asymmetry by reviewing and synthesizing the extant literature. Specifically, we focus on how information asymmetry accelerates between majority and minority owners in the presence of family ownership and how this information gap can be reduced in family firms?

The reason for our interest in information asymmetry in family firms is that this area has attracted a significant amount of research in recent times (La Port et al., 1997, 1998, 1999, 2000; Claessens et al., 2000). These papers have highlighted that the evidence of family ownership and information asymmetry is rampant in developing countries compared to information asymmetry in developed countries where a strong corporate governance mechanisms and more transparent disclosure environments exist. In developing countries, firms face a weak legal protection, law enforcement, and corporate governance (La Porta et al., 1998). These markets are mostly characterized by family ownership where the members tend to disclose less information and in turn increase information asymmetry (La Porta et al. 1998; Claessens et al., 2000; Gul and Han 2002; Loukill and Yousfi, 2011).

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Further, we discuss information asymmetry and agency problems in widely held firms so as to compare how these problems are different from information asymmetry problems in closely-held firms, which we discuss after the first one. We also discuss the motives and antecedents of information asymmetry problems in family firms. In the second last section, we discuss some of the available mechanisms to deal the information asymmetry problems. Finally, we discuss what researchers and regulators need to do further in this area.

INFORMATION ASYMMETRY AND AGENCY PROBLEMS IN WIDELY HELD FIRMS

Beyer et al. (2010) highlight two important roles of accounting information in market-based economies. First, accounting information is important in valuation decisions where investors need accurate and sufficient information before the investment decision. Such a role of information is considered to be ex ante and reduces the chances of adverse selection (that is, reducing the possibility of giving loans to undesirable borrowers). Secondly, investors need to know whether their funds are used for the purpose for which they were supposed to be used or they are used sub-optimally. The second role is known as the ex post or stewardship role. This role of information reduces the chances of moral hazards (that is, it reduces the possibility of activities which are undesirable from the lender's or investors' point of view)

The separation of control from ownership in firms is important as it results in information asymmetry and agency related problems between those in control and those who are not. The discussion on opportunistic behavior of managers of a firm goes back to Bearle and Means (1932) and was comprehensively covered in the study by Jensen and Meckling (1976) who tied together the elements of property rights, agency costs, and finance to develop a theory of ownership structure of a firm. Managers are expected to possess more information about the company as compared to the shareholders. This information asymmetry gives managers an opportunity to use resources of the firm in a manner that enhances their utility over that of the shareholders. This is known as the agency problem between shareholders and managers.

In recent times, the focus was diverted more towards problems engendered by information asymmetry between certain groups of shareholders. Further, we discuss these sorts of.

Information asymmetry and agency problems in closely held firms

Compared to widely held firms, the agency costs can be favorably low if there is a close association between owners and managerial agents (Fama and Jensen, 1983). Similarly, when managers own a significant percentage of the total shareholdings, the managers and other shareholders' interests are more aligned (Jensen and Meckling, 1986), thereby reducing the agency problems. This is known as the 'convergence of interest hypotheses'. Because of these arguments, researchers such as Daily and Dollinger (1992) and Kang (2000) concluded that family firms represent one of the most efficient forms of organizational governance mechanism to control agency costs between shareholders and managers.

However, Fama and Jensen (1983), Demsetz (1983), and Schulze et al. (2001) contended that higher ownership stake in the hands of few family members may create yet another problem - the conflict of interest between controlling insiders and minority outsiders. This conflict of interest manifests itself in various forms such as the insiders may indulge in stealing profits, selling assets and products of the firm to subsidiaries or associated companies at unreasonably lower prices, giving well-paid jobs to less qualified relatives and friends (Ward, 1987) or paying family executives officers unreasonably higher salaries. The ability of the insiders to expropriate outsiders is attributed to information asymmetry between majority insiders and a minority outsider, among many other factors such weak legal systems (Claessens et al., 2000) and influence and power of the insiders (Shleifer and Vishny, 1997), etc.

Family firms: A special case of closely held firms

A number of definitions and methods exist that classify family and non-family firms. A family firm is that in which the founding family members continue to hold positions in top management, are on the board, or are blockholders of the company (Chen et al., 2007). A somewhat similar definition is that a family firm is a firm in which the founder or a member of the family by either blood or marriage is an officer, director, or blockholder (Anderson and Reeb 2003; Villalonga and Amit 2006). Tong (2007) gives a much simpler definition of a family firm. He refers to a firm as a family firm where "...a founding family has a controlling interest" (Tong, 2007: 231). In case of family firms, the firm's goals are closely associated to family goals as they are controlled by a concentrated group of family members (Zahra et al., 2004).

Family businesses are ubiquitous (Shleifer and Vishny, 1986; La Porta et al., 1999; Faccio and Lang, 2002; Anderson and Reeb, 2003). Family businesses are very important as they control a high percentage of corporations in the world (Burkart et al., 2003). In East Asia, more than two thirds of the firms are controlled by either families or individuals (Claessens et al., 2000).

Family-owners typically invest a large portion of their personal wealth in the company, and they often hold their

shares for a very long time. Family firms are usually run by close family members, therefore, they tend to have exceptional concerns over company survival and strong incentives to supervise corporate management's activities (Andres, 2008). Family firms are characterized by a sense of unity and benefits of strong identity. This unification among family firms enables them to carry on a long term view of business and its sustainability. Family members possess a better inside information in comparison to typical managers and outside investors because they have thorough understanding of the company's operations and superior industry knowledge (Kwak, 2003; Anderson and Reeb, 2003). For these reasons, many researchers are of the opinion that family firms represent one of the least-costly or the most efficient forms of organizational governance (Daily and Dollinger, 1992; Kang, 2000). Family firms in contrast to non-family firms are capable of following firms' strategies through difficult circumstances and over periods of time because of their knowledge and long-term investment view (Stein, 1988, 1989; Kang, 2000).

However, family ownership has associated costs for non-family minority shareholders. In family controlled firms, the interest of family members dominates over the interests of non-family shareholders as the wealth is concentrated among the family members. Family firms give favor to their family members in managerial posts, transfer ownership to next generation, maintain financial freedom of the family and the business (Westhead, 1997), and provide members of families with secure employment, as well as perquisites and privileges (Gersick et al., 1997; Ward, 1987). Family firms obtain private benefits by exploiting the firm's resources (Fama and Jensen, 1983; Demsetz, 1983; Enriques and Volpin, 2007; Doidge et al., 2009). The management and governance bodies are less effective in family firms and have lower level of professionalism (Martínez et al., 2007). Kellermanns and Eddleston (2004) criticize family firms for hiring people because of their family position and not their qualifications. Family-controlled firms may also demonstrate excessive risk-aversion and abstain from mergers or profitable expansion strategies (Morck et al., 2000).

As discussed, the key agency problem in a widely held firm is that the managers do not act for the benefits of shareholders, while the agency problem in family business groups is that the managers act primarily for one shareholder, the family, and neglect other shareholders (Morck and Yeung, 2003; Morck et al., 2000). In this context, Morck and Yeung (2003) argue that worse corporate governance problems exists in family control firms.

Family businesses are exposed to different types of agency costs, stemming primarily from shortcomings with regard to 1) altruistic behavior and 2) management entrenchment and shareholder expropriation (Schulze et al., 2001).

Altruistic behavior

Altruistic behavior is a moral value that motivates individuals to undertake actions which benefits them and others closely related to them (Becker, 1981; Bergstrom, 1995; Batson, 1990). In family-controlled firms, altruism leads to excess communication and cooperation within a family firm (Jensen et al., 1976). The firm's costs related with opportunism and monitoring reduces as a result of this behavior. However, findings of some studies such as Becker (1991) and Schulze et al. (2001) suggest that at high levels of altruism firms can face free riding problems. Altruism can give family agents the incentives to hide information; thereby exacerbating the agency problems. According to Schulze et al. (2001), altruism helps the family members to enhance their welfare and can result in an increase in threats of holdup and moral hazard. Families members are provided with secure, as well as perquisites and privileges that they would not receive if were they employed outside the family firm (Ward 1987). Altruism can compel powerful individuals to take actions unintended and possibly bring detrimental consequences for all concerned stakeholders (Jensen, 1998; Thaler and Shefrin, 1981). It also leads to biasness in terms of performance evaluations (Schulze et al., 2001).

Management entrenchment and shareholder expropriation

The entrenchment hypothesis claims that in family firms, insider ownership is large; therefore, there is a greater likelihood that insider-owners will expropriate the minority shareholders (Shleifer and Vishny, 1997; La Porta et al., 1998, 1999, 2000; Bebchuk and Roe, 1999). The owners have power and incentives to consume firm resources by exercising substantial control and influence over firm matters (Abdullah et al., 2011a, 2011b). Management entrenchment gives members, who act as the controlling shareholders, the right to extract benefits from the firm at the cost of minority shareholders (Shleifer and Vishny, 1997; Chrisman et al., 2005).

A number of studies have shown the impact of family ownership on information asymmetry. Information asymmetry provides opportunities to the controlling shareholders to divert resources from profitable investments to their related businesses at unfair prices and in turn decreases the propensity of minority owners to gain their expected returns. It accelerates in the presence of insiders that have information advantages. The risk of expropriation of minority owners by large, controlling shareholders is an essential principle agent problem in most countries (Claessens et al., 2002). The findings reported in Claessens et al. (2002) motivated researchers to further investigate the impact of large shareholders on various aspects of corporate behavior. For example, Attig et al. (2006) hypothesize that large wedge between

controlling rights and cash flow rights can increase the likelihood of selfish behavior of those who are in control. The controlling shareholders can do so by reducing or delaying the information availability so that the other shareholders cannot interfere. The delaying tactics or withholding information can also lead the other shareholders to base their decision on inadequate information (Fan and Wong, 2002; Chau and Gray, 2002). Attig et al. (2006) argue that higher information asymmetry better serves the interests of the controlling shareholders as the share prices may be considerably lower than their fair values in the presence of information asymmetry. The controlling shareholders may use such a situation to their advantage by using their private information to indulge in inside-trading. Testing their hypothesis with Canadian data, Attig et al. (2006) found that the proxy for information asymmetry, the bid-ask spread, was significantly higher in closely-held firms than in widely-held firms. Yet in another empirical study, Sarin et al. (2000) studied a sample of 786 stocks listed on New York Stock Exchange (NYSE) and found that higher insider ownership was associated with a wider bid-ask spread. Similarly, Maug (1988) argued that the incentive of external shareholders' to monitor insiders reduces in the presence of information asymmetry. The insiders earn abnormal returns as they are able to exit from and enter into the stock market (Maug, 1998). On similar lines, Glosten and Milgrom (1985) argue that when there are chances of extracting private benefits, the problem of information asymmetry becomes severe. Similarly, Nagar et al. (2003) argue that disclosure of information reduces private control benefits of managers and therefore the managers will be reluctant to provide extensive information.

According to Chu and Song (2010), insiders of a firm and industrial competition are the sources of information asymmetries in the economy. They studied a sample of Malaysian firms. In Malaysia, the industries are highly concentrated and large insiders are dominant owners of firms. The controlling shareholders control the corporate policies as they have the incentives to obtain necessary information. This generates information asymmetry in the market and thus reduces the liquidity of the equity markets (Attig et al., 2006). Filatotchev et al. (2005) showed that boards that are dominated by family members may result in greater executive entrenchment and are less likely to be monitored by other independent directors. The findings in Fan and Wong (2002) highlighted that the presence of family ownership weakens the informativeness of reported earnings to outside investors. Information asymmetry also helps managers to manipulate earnings in order to maximize their own interests or to signal their private information. It thus influences the informativeness of earnings (Healy, 1985; Holthausen et al., 1995; Gul and Qui, 2002). In family firms, insider ownership is high. The insiders possessing information acquisition and information processing advantages are more likely to manipulate earnings (Ballesta and Meca, 2007). According to Sacristán-Navarro and Gómez-Ansón (2007), in family firms', serious information asymmetry and entrenchment problem emerge between controlling families and minority shareholders rather than between controlling families and managers. Managerial entrenchment and expropriation from shareholders can be minimized by the inclusion of independent directors (Dalton et al., 1998).

Numerous studies have shown that the best way to reduce information asymmetry among informed and uninformed investors is through extensive corporate disclosures (Diamond and Verrecchia, 1991; Kim and Verrecchia, 1994). Besides corporate disclosures, independence of corporate board is a major mechanism used by minority owners to reduce information asymmetry (Fama and Jensen, 1983; Schleifer and Vishney, 1997). These mechanisms are further discussed in detail.

CORPORATE VOLUNTARY DISCLOSURES IN FAMILY FIRMS

Corporate disclosures reduce the agency costs that results from information asymmetry and are considered as an important control mechanism. Summarizing the conclusions of corporate voluntary disclosure models, Beyer et al. (2010) argue that managers would voluntarily disclose private information when they know that the market participants will interpret such information favorably and would revise the market value of the firm upward. This conclusion is primarily based on the unraveling results of Grossman and Hart (1980), Grossman (1981), Milgrom (1981), and Milgrom and Roberts (1986). The question that arises from this conclusion is that if corporate disclosures are endogenously determined, then why should there be any need for exogenous regulations for compulsory disclosures? The fact is that the unraveling results are based on certain assumptions that must hold if voluntary disclosures are to function. These assumptions include a) disclosures do not entail costs b) investor are of the opinion that the given firm has private information c) managers are of the opinion that the information will have positive impact on the firm value after disclosure of the information d) the objective of the managers is to maximize the market value of the firm, etc. These assumptions imply that information will not be disclosed in all circumstances, especially when the controlling insiders have intentions of expropriating the minority-outsiders.

Since founding family members have significant stake in a firm, two opposing hypotheses can be drawn regarding corporate disclosure policy of family firms. These hypotheses are based on the 'long-term investment hypothesis' of Stein (1988, 1989) and the

'agency problems between large and minority shareholders' hypothesis of Fama and Jensen (1983) and Demsetz (1983). The implications of these two views for information asymmetry and corporate disclosure behavior are discussed thus.

The tong-term investment view

Stein (1988, 1989) argues that family controlled businesses are expected to have quality reporting practices because family members take a long-term view about the firm and their investment in the firm. Family members have significant concern for the firm reputation and survival. Furthermore, family members can closely monitor the activities of managers (Demsetz and Lehn, 1985) because they are usually at par with managers as far as information is concerned (Weber et al., 2003) and can effectively stop managers from manipulating the firm's earnings if the managers try to do so for getting bonuses. In support of the afore arguments, Tong (2005) found evidence that family firms in the S&P 500 have better quality reporting practices than non-family firms.

In recent times, a number of studies have looked into the possibility whether cross-sectional variation in ownership structures and governance mechanisms can explain variations in corporate disclosure choices. The study by Ali et al. (2007) is considered to be the first one to provide empirical evidence in this regard. They classified the S&P 500 firms into family and non-family firms to see whether corporate disclosures systematically differed between the two groups of firms. They concluded that agency problems between managers and shareholders are less severe in family firms; however, agency problems between controlling and minority shareholders are more severe in these firms. Further, they argue that family firms perform better than non-family firms and hence provide high quality corporate disclosures.

However, Hutton (2007) contended that link portrayed by Ali et al. (2007) between performance and corporate disclosure in family firms might suffer from spurious correlation. Hutton argues that family firms may retain ownership in best performing firms as documented by Miller (2002).

This point is also proved from the findings reported in Anderson and Reeb (2003) who found that family firms had better performance than non-family firms in the S&P 500 firms. Subsequently, the relationship is between performance and disclosure, not between family control and disclosure. Alternatively, Hutton (2007) posits that family-members are long-term investors who are not motivated to do earning management through manipulation of real-economic activities as doing so is often costly. If this is true, then there is more likelihood that family-firms voluntary disclosures will be different from non-family firms.

Agency problems of large shareholders

Contrary to the views of Stein (1988, 1989), Fama and Jensen (1983) and Demsetz (1983) are of the view that large shareholder, such as families, are in better position to extract rents from the firm and withhold key information from other shareholders. Similarly, due to their higher stakes, family members are usually insulated from the scrutiny of other investors, and resultantly may show gross disrespect for rules and rights of other claimants (Faccio et al., 2001; Anderson, et al., 2003). Jung and Kwon (2002) conclude that managerial entrenchment and expropriation of minority shareholders offset the benefits of convergence of interests in Korean chaebol (Korean business group)-affiliated companies.

Evidence in other studies suggest that disclosures is expected to be less in family-controlled firms as the members in these firms hold a substantial number of shares and have direct access to the firm's financial information. As many family members sit on board, the demand for published information is less (Haniffa and Cooke, 2002). Information asymmetry increases the entrenchment effect between the founding family and other shareholders due to less transparency and lower flow of information (Wang, 2006). Information asymmetry is higher for firms with poor information transparency and disclosure practices (Chen et al., 2006). According to Anderson et al. (2009), transparency plays an important role in mitigating the conflict between dominant shareholders and minority investors. Their findings showed that family control is less likely to provide transparent information. Family firms are less likely to provide voluntary disclosures such as conference calls and earnings forecasts (Chen et al 2008). Gelb (2000) examined a sample of 3,219 U.S listed companies from the period 1981-1993 and found a negative relationship between insiders' ownership and disclosure quality. Labelle and Schatt (2005) carried out a study on a sample of 90 French listed companies. They concluded that the quality of annual reports increases when the ownership is less concentrated.

Family firms are usually part of a larger group of associated firms. These firms have more convenience in expropriating the minority shareholders through intra-group transactions. The group may either tunnel resources from strong firms to distressed firms in order to support the troubled firms or do so just with outright ill-intensions of expropriating the minority shareholders (Jung and Kwon, 2002). In both the cases, the group firm will not properly disclose the information.

Mandatory disclosures

If voluntary disclosures are less in certain group of firms such as family-firms and firms with concentrated ownership structures, would it be desirable to articulate

accounting rules that require more disclosures? There are a number of pros and cons that are considered important while answering this question. Dye (2001) and Verrecchia (2001) argue that there is no unifying theory of mandatory corporate disclosures partly because of the fact that mandatory disclosures protects the interests of one group of people while it decreases the welfares of others. Beyer et al. (2010) identifies four main rationales for corporate mandatory disclosures: financial externalities, real externalities, agency costs, and economies of scale. However, at the same time, mandatory regulations are not preferred for two reasons. First, organizations differ from one another on many accounts and hence ‘‘one-size-fits-all standards’’ might not be appropriate (Admati and Pfleiderer, 2000). Secondly, more disclosure may bring in less social welfare than additional social costs. For example, more information may facilitate collusion and worsen agency costs in some cases (Christensen and Feltham, 2000; Gigler and Hemmer, 2004). Moreover, mandating more disclosure might involve disclosure of propriety nature of information, and/or reduce risk-sharing (Hirshleifer, 1971; Verrecchia, 1982; Diamond, 1985; Dye, 1990).

Keeping in view these considerations, the challenge that researchers and regulators face is to know how uniform disclosure standards affect firms with different characteristics (Beyers et al., 2010). Similarly, it is still to be discovered by empirical researchers whether overall social welfares increases while protecting interests of a specific group of investors through mandatory disclosure practices.

Independence of corporate board

Family members constitute the majority of board members and they resist bringing in outsiders because they do not want to reveal their family secrets to the outside world (American Family Business Survey, 2002). However, from governance point of view, inclusion of outside members is considered desirable as it enhances the effectiveness of board monitoring. Numerous studies have shown the existence of a positive relationship between the board of directors’ independence and the corporate disclosures (Leung et al., 2005; Nasir and Abdullah 2005). Ajinkya et al. (2005) concluded in light of their empirical findings that the probability of accurate and less-biased earnings forecasts by a firm increases with the percentage of outside directors in the board of directors. Similarly, Karamanou and Vafeas (2005) found that companies with better governance mechanisms tend to issue a earning forecast, especially a bad news forecast. These findings indicate that good governance increases the likelihood of less information asymmetry between management and shareholders.

Family opportunism can be reduced by the inclusion of independent directors (Anderson and Reeb, 2004; Maury and Pajuste, 2005). The outside members develop reputations as experts in decision control and do not collude with managers to expropriate from residual claimants (Fama and Jensen, 1983). Similarly, monitoring and advice is also considered as the main function of board of directors (Demb and Neubauer, 1992; Mace, 1971). Living up to its responsibilities, independent board of directors is expected to reduce opportunistic behavior of any dominant group in a firm. In family firms, governance mechanisms are limited and minority shareholders potentially rely on their boards to monitor and control the families’ opportunism (Westphal, 1998). Since, the key agency conflict in family firms is the expropriation of minority shareholders, the outside owners try to place independent directors on the board in order to control family opportunism. The findings by Anderson and Reeb (2003) indicated that the independent directors act as an influential mechanism in mitigating family opportunism as they contribute expertise and objectivity that minimizes the entrenchment effect within a firm and the expropriation of firm resources.

Many studies have suggested that the transparency of corporate boards and monitoring of board activities can be improved by inclusion of independent non-executive directors on corporate boards. Ultimately, it will result in more comprehensive financial disclosures by firms (Chen and Jaggi, 2000). Holm and Scholer (2010) suggested that board independence and transparency are prime corporate governance mechanisms that are likely to reduce asymmetric information and thereby reduces agency costs as better information becomes available to the finance providers.

The institutional shareholders role

Institutional shareholders usually face lower costs to acquire information and hence they are considered to be informed traders. They are better informed and hence are better monitors than retail investors (Neill and Swisher, 2003). In this regard, earlier research studies report a positive association between the presence of institutional traders and informativeness of earning announcements (Seppi, 1992). Similarly, research shows that they are active traders around announcement dates. Studies such as Cready (1988), Lee (1992), and Kim et al. (1997) have found a direct relationship between institutional holdings and trading activities when earnings announcements are made. Because of the information advantage and their active roles, they can help in reducing information asymmetries and forcing managers to disclose key information about the firm. Empirical research supports his notion as evidence found in several studies purports that high level of institutional shareholdings are associated with more disclosures (Healy et al., 1999; Bushee and Noe, 2000). With different findings but with similar conclusions as previously stated, some

studies have focused on the association of institutional shareholders and the decision to hold open conference calls. For example, Bushee et al. (2003) found that the an ‘‘open’’ conference call decisions were found to be less in firms where many analyst were following the firms and greater number of institutional ownership were present. Core (2001) interpreted such findings as evidence of the fact that informed investors want less disclosure and that analysts and institutional investors produce information that helps in the reduction of information asymmetry. However, evidence to the contrary also exists. For example, Ajinkya et al. (2005) reported that firms the likelihood of voluntary disclosures declines with the increase in institutional shareholdings.

CONCLUSION

The aforementioned literature shows the role of family ownership in affecting agency problems and information asymmetry. It also highlights the role of independent directors and corporate disclosures in reducing the entrenchment effect and the level of information asymmetry in family controlled businesses. However, as highlighted by Schulze et al. (2001), research in this area has not come up with a complete theory to tie together elements of agency theory, property rights, information asymmetry, and ownership structure. The second problem encountered by researchers in this area is the paucity of data that makes testing of hypotheses difficult. In this regard, both the researchers and regulators need to work further. Researches need to devote intellectual resources to come up with a comprehensive theory to pave way for future research and regulatory authorities need to effectively implement corporate governance frameworks to increase disclosure of information and ensure the presence of independent directors in the boards of family firms. Moreover, in view of the findings of La Porta et al. (1998, 1999, 2000) and Claessens et al. (2000, 2002) that the content of the law to protect minority shareholders and enforcement of the same by judicial systems vary systematically across developed and developing countries, the nature and intensity of information asymmetry is expected to be different in these countries. Countries with weak protections for investors are expected to have greater information asymmetry problems than countries with strong protections. Scanty empirical evidence exists in this area. Future research can determine the prevalence and severity of information asymmetry problems across countries.

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