Privatization, Corporate Control and Regulatory Reform: an Event Study of Telefónica

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Abstract

Studies of agency problems in regulation and of agency problems inside the firm have progressed in parallel in the recent past. This paper analyzes the interaction between both problems, investigating the case of a large privatized firm subject to many policy constraints. The last steps of Telefonica's privatization were designed as to promote a disperse ownership and give managers a high level of discretion in running the company. Privatization coincided with liberalization and a new regulatory regime based on the operation of several institutions. We show the new nature of the agency structure of both the firm and regulation, and test hypotheses related to corporate control and regulatory control. There is no overall evidence of capture by shareholders, although there is evidence of collusion between politicians and managers.

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1. Introduction

Studies of agency problems in regulation and of agency problems inside the firm have progressed in parallel in the recent past. However, research on the interaction between both agency problems is absent. This study provides a first step in this direction, investigating the case of a large privatized firm still subject to many policy constraints.

The former public sector telecommunications monopolist in Spain, Telefonica, became a fully privatized firm in early 1997. By then, its shares were owned by more than one over eight Spanish households (Megginson et al., 1999). It had become one of the clearest examples of "popular capitalism." Since December of 1998 it also faces a widely liberalized market. However, the company also operates under a more complex regulatory system: its operations are constrained by decisions taken by a number of institutions: governments (in the different countries where the firm now operates), regulatory agencies, courts and supra-national authorities. The simple picture of a monolithic firm and a single-agent regulator does not have enough explanatory power.

The company responded to the challenge of competitive product and capital markets by undertaking a strategy of diversification and corporate change. Telefonica became one of the European companies with the highest direct investment in Latin America and a global operator in what has been called the New Economy. Its behaviour illustrates the changes that the telecommunications sector faces as it adapts to deregulation, convergence and globalization.[1] This paper analyzes this strategy and quantifies its impact on shareholder value. Using the event study technique, we test hypotheses related to agency theory of the firm and the capture theory in regulation. Previous studies have analyzed one or the other,[2] but not the interaction of both theories. We test the hypothesis that some agents in government (the politicians) collude with some agents in the firm (the managers), at the expense of voters and shareholders.

The analysis in this paper is related to important issues in the academic literature. In particular, Kole and Lehn (1997) make specific predictions about the changes in corporate behaviour that should be expected after deregulation.[3] The main point is that deregulated companies should adopt structures that make them more similar to other large firms that compete

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[1] Recent research on the performance of telecommunications incumbents in this context include Koski and Majumdar (2000) and Bulent et al. (2001).

[2] A related event study testing the capture theory of regulation is Dnes and Seaton (1999). They find no overall evidence of capture of OFTEL by BT in the UK.

[3] See also Waverman and Trillas (2002), Trillas (2002) and Lehn (2002), and the other papers included in the special *Telecommunications Policy* issue on *"Corporate Control and Industry Structure in Global Communications."*

in open capital and product markets. However, many privatized companies still face regulation in some segments (most notably, the regulation of access or other constraints on prices). More in general, many of these firms are still subject to important policy-makers' decisions, not only through product market regulation, but also through corporate control restrictions, such as golden shares.

To illustrate the issue with the case of Telefonica after full privatization, we focus our attention on two sets of events,[4] each subdivided in three subsets. We analyze the impact of *policy decisions* to test for several variations of the capture theory of regulation, and we analyze *managerial decisions* to test hypotheses related to the agency theory of the firm. Among the latter, many of the decisions in this period had to do with mergers and acquisitions. Some conclusions are derived from stock returns. Although markets may anticipate the broad expansion strategy of the firm, the announcement of the implementation of this strategy by management amounts to a release of new information. The same can be said about regulation: although markets can anticipate the broad aspects of policy, announcements by relevant agents amount to a release of new information, the direction of which is hard to anticipate when several firms compete for policy in different directions. According to the financial markets efficiency hypothesis, the stock price provides then the best estimate for the change in market value of the company as a result of the announcements. We take advantage of this insight in a way that is standard in the literature.

The results presented in this paper show that Telefonica certainly introduced numerous changes following privatization and deregulation, most notably diversification, although the previous management had already engaged in investments in Latin America. Some of the changes were also associated with managerial entrenchment. Although there are scale and scope economies that justify consolidation in the telecommunications sector, this does not imply that every deal is a value creating one. Agency problems in acquiring firms may be the reason for expansion projects that do not create value for the shareholders, either because the price is too high or because synergies fail to materialize. The quantitative results show that investors welcomed the announcement of international alliances and mergers (even when they eventually did not take place) but not always direct investment in Latin America and other acquisitions. The evidence about diversification in the media industry is mixed. There is no overall evidence of capture of policy-makers by shareholders, although decisions by different institutions had a significant impact on shareholder value. There is some evidence of collusion between managers and politicians. This is made possible by agency problems in politics (voters are unable to fully control politicians) and by agency problems inside the firm (shareholders are unable to fully control managers).

The content of the paper is structured as follows. Section 2 develops the theory behind the several issues that are taken up in the empirical analysis. Section 3 presents the methodology used in the analysis. Section 4 shows the evidence and Section 5 concludes.

2. Background

This section presents the hypotheses and related literature for the issues analyzed in the quantitative study.

i) The Firm

Privatization *per se* may not change incentives, although it offers an opportunity to change the corporate governance of the firm.[5] Megginson et al. (1999) and Bel (2002) empirically show that share issue privatizations have both political and economic objectives,[6] and that many governments keep some form of control after selling the assets (such as golden shares or partial privatization). This may create corporate governance problems, since the ownership structure of the company is not necessarily the one that maximizes shareholder value. Trillas (2000) argues that political objectives, in the form of collusion between managers and privatizing governments, yield higher levels of shareholder dispersion than the ones that would obtain if privatization maximized financial proceeds. This is so even accounting for a potential positive effect of dispersion because of a higher level of managerial effort due to an enlarged room of manoeuvre. This makes telecommunications firms after privatization and on the eve of deregulation potential candidates for the application of Jensen's (1986) free cash-flow theory: the firms identified by Jensen for his theory face declining revenues in the core business and may have flawed corporate governance mechanisms. This gives incentives to managers with deep pockets to undertake expanding projects beyond those that are net positive present value. When managers perform poorly, they may diversify to improve performance and save their jobs. If industry conditions are

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[4] Other policies of the new management team that are of interest in this period, but beyond the scope of this paper, are restructuring measures that have to do with the labour force, and marketing efforts as a reaction to competition such as discount plans or expenditure in publicity.

[5] According to Dewenter and Malatesta (1998), private firms are more profitable than public sector ones, but privatization *per se* does not increase profitability, as proved by the good results obtained on average for their international sample of firms 3 years before privatization. Cragg and Dyck (1998), in their study on managerial turnover in British privatized firms, reach the conclusion that the effect of privatization on incentives was more pronounced after four years in the private sector and in sectors not subject to price regulation.

[6] Empirical studies on political objectives in privatization rely basically on hypothesis established in Perotti and Guney (1993), Perotti (1995) and Biais and Perotti (2002).

changing, they may well want to diversify their human capital, irrespective of the efficient strategy to undertake from the investors' point of view.[7]

Being a very large company that was still enjoying important incumbency advantages, Telefonica's management had at its disposal a large free cash flow. This was more so after it was decided that the firm would not distribute dividends, as had been traditional in the company. However, Jensen mentions another condition for the free cash flow theory to hold: firms must face low growth prospects in the core business. It is arguable whether the core business of Telefonica was telephony in Spain or telecommunications services in general. It can be argued as well that the potential for growth in telecommunications has varied over time in the recent past, and arguably it was high for most of the period analyzed in the quantitative study below (1996-2000). Then, whether Telefonica and similar firms fall under the set of firms that fulfil the conditions for the application of the free cash flow theory is an empirical issue.

There are also arguments that can be used to justify that some degree of expansion was value-enhancing. Scale and scope economies due to technological change, and the enlargement of the market due to both technology and privatization in other countries (especially in Latin America), made some acquisitions potentially profitable. One of the main reasons for diversification from the demand side is that some know-how necessary to develop new technologies is not marketable, and developing countries may need the presence of foreign operators to benefit from them. Noll (2000) argues that the typical privatization choice in developing countries is selling controlling stakes of telecommunications incumbents to operators in developed countries, or at least to consortia that include a major telecoms operator. Besides, since giving back cash to shareholders may draw the attention of politically motivated regulators, internal capital markets may provide a way to avoid the expropriation of the firms' returns. In climates that allow a rate of return above the cost of capital, diversification may provide a more efficient investment opportunity than organizational slack or over-investment in the regulated sector.[8] A utility may prefer productive diversification rather than capital markets to spread its risk, due to costs of transacting in capital markets and due to tax advantages of conglomerates (reinvesting within the firm can avoid the tax payments that accompany dividends).[9] Conversely, failure in some other field can endanger a utility's credit and earnings. Whether the agency or the

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[7] Robison et al. (1995) confirm the existence of agency problems in the diversification activities of utilities.

[8] Investment in related sectors may trigger the reaction of regulators or anti-trust authorities, which is not the case for investments in multi-utilities or foreign investment.

[9] From a social welfare point of view, the potential efficiency gains from diversification must be balanced against the loss from more difficult regulation due to blurred cost estimates (most notably, the equity cost of capital), cross-subsidization incentives and difficulties in implementing yardstick competition. Efficiency gains may then not be easily passed on to consumers.

synergy reasons prevail is an empirical matter, and the conclusion depends on the value of each acquisition for the firm, the price paid for it, the regulatory reaction and other time and country-specific characteristics. This exercise contributes to clarify which events increased shareholders' wealth and which ones did not.

Research on the interaction between regulation and the relationship between managers and shareholders concludes that more information from the regulatory agency has the effect of subsidizing monitoring. On the one hand, this creates scope for more dispersed shareholding and/or causes less need for performance related compensation to managers.[10] On the other hand, since regulated executives have less influence on outcomes, different skills are needed, and labour markets for regulated and unregulated firms are different. According to this view, the typical utility CEO would be like a bureaucrat: in regulated firms "public relations" and "political" skills are more valued due to the need for the company to play the regulatory game. According to Kole and Lehn (1997: 424) deregulation would in part remove these constraints and would make regulated managers resemble more their colleagues in non-regulated firms. They argue that deregulation increases the importance of the managerial function in the firm: *"Deregulation provides a unique opportunity to observe the Darwinian process at work. It serves as a shock that requires firms to adapt their strategies and organizational structures to the new rules of the game*." An enlarged room of manoeuvre for managers should lead to cost-cutting operational changes, to pricing and marketing innovations (new products, more aggressive publicity), as well as to an increased number of mergers and acquisitions. Moreover, greater business instability makes it harder to distinguish the effects of management decisions on firm performance from the effects of other factors. Consequently, the value of actions that better align the incentives of managers and shareholders increases (better monitoring, incentive schemes in compensation, a more concentrated ownership structure[11]). Since smaller boards result in less free-riding and promote more rapid decision-making, board size is likely to contract. They also claim that to the extent that outside directors play an important monitoring role, it might be expected that outside representation on boards of directors increases after deregulation. However, they also observe some degree of path-dependence in the internal governance decisions of firms. Part of the inertia may be explained by defensive measures taken by managers. In Europe, the post-privatization control restrictions kept by governments are certainly a potential source of inertia in the corporate structures of deregulated firms.

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[10] Joskow et al. (1993) argue that intervention in the compensation process by well-informed and influential outsiders may affect the contracts between shareholders and top executives. Moreover, utilities operate in an environment where low risk derives into lower compensation.

Since the business scenario that the firm faces upon privatization and deregulation changes, the firm should modify financial policies. Hyman and West (1989) report that traditional utilities have higher debt and dividend payout ratios than industrial groups. Positive shareholder reaction to a move away from this traditional policy would imply that investors expect managers to make better investments than themselves. If the utility is moving towards more competition and diversification, the earnings stream from the core business could become less predictable. Regulators will interfere less with financial policies. And the dividend payout should move down.

ii) Regulatory Policy and Other Issues in Public Policy

Regulatory decisions on industry structure determine the horizontal and vertical competition aspects of ownership. Regulated prices determine the free cash flow that managers will have access to, in order to finance diversification activities.

The traditional view of the role of interest groups in regulation is the Capture Theory, according to which (Stigler, 1971) regulators are puppets under the influence of producer interests, much better organized and with higher stakes per capita than consumers. Peltzman (1976) supplemented this theory with the more complex argument that regulators face competing interests that may push policy into different directions. One can distinguish between upper level and lower level capture (Dnes and Seaton, 1999). The former would take place when interest groups lobby the government at the policy design level (Grossman and Helpman, 2001), and the latter when they lobby regulators at the policy implementation level (Laffont, 2000). The possibility of capture at different stages of the policy making process is an instance of the multi-principal nature of government. Checks and balances between different governmental institutions may reduce the leverage of interest groups (Spiller and Vogelsang, 1997). In addition to this, as Laffont and Tirole (2000) describe, the subsidiarity principle holds in the European Union telecommunications liberalization process: European authorities set principles and governments adapt them through more detailed policies. For example, the European Union fixed a policy of interconnection based on cost based prices, which in principle goes against the interests of incumbents such as Telefonica.

Sidak and Spulber (1997) analyze the specific problems that former regulated monopolists face when confronted to deregulation. They provide arguments in favour of the existence of an implicit regulatory contract. If the existence of this contract is not recognized and its terms are not fulfilled, new investment will be more costly than it needed. In particular, according to these

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[11] Since deregulation increases monitoring costs, ownership structure becomes more concentrated to make it privately rational for individual shareholders to incur these costs.

authors interconnection prices should be set as to allow the former monopolists to obtain a rate of return that covers its cost of capital. In addition to that, quarantines that prevent former monopolists from entering segments in which they can have scope economies should not be imposed, because entry in these other sectors may be socially efficient. Although their analysis is centred on the US, the point they make on the risks of not compensating for former monopolists' past investments is of general relevance.

Some theoretical reasons for the opposite of capture theory happening (i.e., incumbents being punished by regulators) can be found in Grossman and Helpman (2001): voters' information may reduce the ability of organized interests to provide campaign contributions, because such contributions can do nothing to sway an informed electorate. Then we should expect that policies about which voters are less informed (e.g. policies on corporate control, such as golden shares or takeovers restrictions) are more prone to be captured by lobbies than those about which voters have more information (e.g. pricing policies). Trillas (2000, chapter 3) shows that managers, due to the endogenous rents they capture with a disperse ownership of the firm, may collude with politicians at the privatization stage. Politicians may adopt a high dispersion policy (through privatization techniques, golden shares, takeover restrictions) to share with managers the rents from dispersion at the expense of shareholders, in the form of campaign contributions, politically orientated investments, etc. The existence of several competing lobbies is also another reason for which one single lobby may fail to make its interests prevail. Hence liberalization, insofar as it implies the entry of new interest groups, should be associated with less clout for incumbents. In particular, one would expect that incumbents can do little to press for favourable access pricing policies, where the pressure of entrants in the opposite direction will be fierce. Another reason for capture not being observed in equilibrium is because constitutional measures may be taken to prevent it. But then these constitutional measures have a cost, e.g. in terms of less powerful incentive schemes to reduce rents (Laffont, 2000). Following this rationale, the levels of capture that are observed in reality are just the tip of the iceberg of a much larger set of transaction costs.

Table 1 summarizes all the hypotheses.

(TABLE 1 ABOUT HERE)

3. Methodology and Data

Research that analyzes how a system of governance moves from one equilibrium to the next may shed light on how former monopolists move to a deregulated environment. Along these lines, we present a study that places a special emphasis on the statistical impact of new information release. The statistical approach[12] that researchers commonly use to measure the impact of a particular information release is the "event study". The methodology is suitable to interpret the effect on shareholders of facts that have not been progressively anticipated by the market to a significant extent. There are some examples of event studies applied to regulatory events related to one single firm, such as Dnes and Seaton (1999). It is also illuminating to use the technique to analyze other events related to privatized and regulated companies, mainly the strategy of the company itself. In other words, we aim to translate a technique that has been fruitfully used for other firms [e.g. Lys and Vincent (1995) and De Angelo et al. (1996)], to the analysis of a large privatized, regulated firm, combining the case study and the statistical analysis of information disclosure about events related to the firm's performance. Event studies, in its most widespread version, are a marriage of efficient market theory with an index model for predicting stock returns. It consists of first translating variables into rates of return, then netting out general market movements, and, finally, examining the relationship between residual returns and events. The objective is to measure the unexpected return that results from an event. This is the difference between the actual stock return and the return that might have been expected given the performance of the market. This expected return can be calculated using an index model.

According to this model, stock returns are determined by a market factor and a firm-specific factor. The stock return, r_t, during a given period t, would be expressed mathematically as

$$r_t = a + br_{mt} + e_t$$

where r_{m_t} is the market's rate of return during the period and e_t is the part of a security's return resulting from firm-specific events. The parameter b measures sensitivity to the market return, and a is the average rate of return the stock would realize in a period with a zero market return. The firm specific return may be interpreted as the unexpected return that results from the event.

The parameters are usually obtained for a period before the events of interest (estimation window) and the difference between the predicted returns and the actual returns for the days of interest (event window) are called abnormal returns. From this, it is possible to compute the Cumulative Abnormal Returns (CARs), adding several observations of abnormal returns. The Capital Asset Pricing Model (in equilibrium, $r = r_f + \beta(r_m - r_f)$) implies that the intercept a in the estimated equation should equal $r_f(1-\beta)$, where β is the slope in the equilibrium equation of the CAPM and r_f is the risk-free rate. Nevertheless, it is customary to estimate the intercept in

[12] See Bhagat and Romano (2001) for a recent survey.

this equation empirically rather than imposing the CAPM value, since empirically fitted security market lines seem flatter than predicted by the CAPM, which would make the intercept predicted by the CAPM too small.

Data

i) "Relevant Facts" related to Telefonica have been obtained from the web page of the Spanish Stock Exchange Commission (*Comision Nacional del Mercado de Valores*) and in the *Hydra* and *Lexis-Nexis Executive* databases. A total of 61 events have been analyzed. The period under study coincides with Juan Villalonga's period as Chairman of Telefonica, i.e., between June 1996 and July 2000. This provides a useful window to analyze the impact of changes in the company and in public policy as a result of privatization and deregulation.

ii) All the information and articles about Telefonica in the world major newspapers, including English speaking and Spanish speaking ones, from the *Lexis-Nexis Executive* datatabase in 1996-2000 have been used to check the accuracy of dates and descriptions.

iii) Stock prices have been obtained from *Datastream*, and they come from a return index that takes into account the reinvestment of dividends.[13]

Three-day returns (the most common event window for similar studies[14]) are computed as:

$$\mathrm{Return} = \frac{\mathrm{Price}(t) - \mathrm{Price}(t-2)}{\mathrm{Price}(t-2)}$$

t-statistics used are computed using the standard deviation of the residuals in the estimation period. Precisely, the test statistic for the 3-day abnormal returns is given by $t = \frac{AR_3}{SD_3}$, where AR_3 is the three day prediction error as an estimator of the abnormal returns and

$SD_3 = \left[3 * VAR(AR_t)\right]^{\frac{1}{2}}$, where $VAR(AR_t)$ is the variance of time series of daily abnormal returns.

When aggregation for more days is performed, the formula for the t-statistic just changes in that instead of 3 the appropriate number of days is introduced. The estimation window for which the parameters of the index model have been computed goes between 31/12/94 and 31/12/95. The empirical counterpart of the market return we use is the S&P 100 index, reflecting

[13] The same exercises were performed with a price series that did not take into account re-investment of dividends, without changes in the results.

[14] For a recent example, see Besanko et al. (2001).

the fact that increasingly Telefonica has become a global operator and it is quoted in the New York stock exchange.

4. Facts and Impact on Shareholder Value

Table 2, and Table 3 in the Appendix, summarize the results about the impact of different events on the stock returns of the company. Each event corresponds to an announcement that implies an update on the market information about decisions taken either by policy-makers or by managers. Events with overlapping dates were eliminated, unless they belonged to the same set of events.[15] Still, the impact on stock prices of the new information is relative to the expectations. Care must be exercised in the inferences derived from this evidence. We make use of our judgement and qualitative and factual knowledge in interpreting the results.

Table 2 provides aggregate results about the reaction of shareholder wealth to six sets of events: governmental policies, regulatory policies (decisions by the Spanish Telecommunications Agency), policy announcements by other institutions, managerial decisions on acquisitions, managerial decisions on mergers and alliances, and managerial decisions on corporate governance. The table reports the number of days of each set of events, the cumulative abnormal returns for these days and the t-statistic. It must be stressed that these data do not provide a welfare analysis, but just evidence of the creation of shareholders' value. Furthermore, the methodology reflects market expectations, not the actual performance of the company after the events reported here.

(TABLE 2 ABOUT HERE)

i) The Firm

Three sets of managerial decisions have been analyzed to explore the extent of the agency problems in Telefonica: 1) acquisitions (MA), 2) mergers[16] and alliances (MMA), and 3) managerial decisions on corporate governance (MG).

The aggregate effect of acquisitions is positive but not significantly different from zero. This is consistent with most of the empirical results of bidding firm returns in takeovers and acquisitions. Due to the free-rider effect amongst target firm shareholders, the bidding firm tends to offer an acquisition price that equals the ex-post value of the acquired firm with the new management, which eliminates any gain for bidding shareholders.[17] Notice that this may be consistent with an overall creation of shareholder value, where such value may be captured by the

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[15] The events on June 7, 8 and 12 overlap but belong to the same set of government's policy. In Table 3, only the abnormal return for the cluster of dates between the day before these three events and the day after is reported.

[16] The distinction we establish between acquisitions and mergers is that in acquisitions the target firm is significantly smaller than Telefonica.

target shareholders. Notwithstanding this is what happens in most empirical studies, nothing can be said about it here, because target share returns have not been analyzed (in many cases, they cannot be analyzed, because some of the targets were not quoted in the stock market, such as is the case with many media firms).

The previous management of Telefonica had already started a very ambitious investment activity in Latin America, with controlling stakes in Chile, Argentina and Peru's largest telecommunications operators. The new management maintained this policy. The effect of the individual acquisitions in Latin America was not statistically significant. The exception is the takeover in 2000 to acquire the remaining shares in most of the Latin American subsidiaries (events of January 13 and July 3, 2000, in table 3). Two explanations seem equally plausible to us to explain such a positive effect. First, taking full control of the subsidiaries implied a new organization for the company, creating a truly global management structure that could better respond to a global market. Second, the deal implied that small shareholders in the subsidiaries would now become shareholders of Telefonica itself. That meant that also the ownership structure of Telefonica was becoming global, and hence any attempt to control the company from the political process in Spain would now be more costly.

Although investors may value the scope economies in a frontier business such as media, some of the moves into this and other sectors were probably motivated by non-economic reasons. There is probably a trade off between productive synergies and private benefits from control (which are potentially substantial in a high profile industry such as media,[18] where these benefits can additionally be shared collusively with politicians).

Investors reacted positively but not significantly to the creation of a Digital TV platform around Telefonica, and negatively but not significantly to investments in the radio sector. They also reacted ambiguously to the investment in *Antena 3 TV*. Concerning the investment in the group Recoletos/Pearson to create a multimedia group and undertake common business in the contents sector, investors reacted positively and significantly (event of September 24, 1997, in table 3). The reaction to the acquisition of Endemol was negative but not statistically significant and the acquisition of Mediaways had a negative and significant effect on shareholder value (event of June 6, 2000, in table 3).

Events in 1999 and early 2000 show the ambition of Telefonica to be an active player as a global operator in the New Economy. The flotation of Terra Networks, the Internet subsidiary, was a great success, becoming the largest European Internet firm by market capitalization. The

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[17] Regulation in the target firm's product market also constrains the potential gains of bidding shareholders. See Trillas (2000).

spin-off took place after Telefonica had been aggressively acquiring Internet firms in Spain and Latin America. Terra Networks value would subsequently decline, following the trend of the "new economy" in 2000 and 2001.

The aggregate effect of corporate governance decisions is not statistically significant either, although it is positive. In spite of the fact that most of the announcements in this set reflected a process of management entrenchment, shareholders did not value it negatively. This may be consistent with two possible explanations: the shareholders anticipated that an "initiative effect" would be positive for managerial effort; or the shareholders anticipated that making takeovers more expensive for potential bidders would increase the gains for target shareholders of any actual takeover.

The hard core of shareholders in place from the times of pre-privatization was kept in place after appointment of the new management and full privatization. However, the institutions in the hard core remained passive in all the changes that the company undertook during these years. The appointment of nine "independent" directors was also interpreted as a move to a more controlled Board by the Chairman, Juan Villalonga.

The evidence about how consistent is Telefonica's evolution with the predictions made by Kole and Lehn (1997) is mixed. A leaner hierarchy was achieved by eliminating the position of CEO. However, to make sure that it would be very costly to change the new structure, defensive measures were taken in 1998 to prevent takeovers, proxy fights or any form of losing control. According to these measures, 1) a candidate for the Board of Directors must have held more than 1000 shares of Telefonica for at least three years before nomination, unless 85% of the members of the Board agree to remove such condition; 2) a candidate to become Chairman must have held a position in the Board of Directors for at least three years before nomination, also with the 85% rule; 3) independently of his holdings, no shareholder can issue votes for more than 10% of the total votes.[19] As predicted by Kole and Lehn (1997), the Board of Directors became smaller than before. With this more nimble structure, Telefonica's management had a high degree of discretion to undertake ambitious expansion and diversification programs and more aggressive marketing campaigns.

Concerning financial structure, the most significant change was the new dividend policy announced in 1998. Telefonica would not distribute dividends, with the objective of having more

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[18] See Demsetz and Lehn (1985).

[19] Given these restrictions, Crespi and Garcia-Cestona (1999) argue that "given the existent dilution for this company, these measures create an added power for the managerial team. (…) Through these measures, we are breaking the one-share-one vote rule, giving more discretionary power to managers and seriously affecting the governance of the firm."

funds available for an aggressive investment policy. The investors' reaction to the new dividend policy was not statistically significant. Increasing cash-flow for investment was not deemed value-enhancing.

Interestingly, the set of events on mergers and alliances had a positive and significant cumulative effect on shareholder value (MMA in table 2). The events included in this set have in common that they increased the probability of the control structure of the firm being significantly altered. The new managerial team shifted international alliances in 1997, leaving Unisource to reach an agreement with BT first and WorldCom and MCI next (over time, this alliance lost practical importance for the company). The alliance with BBVA implied a larger role in the company for one of the financial institutions in the hard core of shareholders.

The events in this "mergers and alliances" set that had the largest impact on shareholder wealth were the announcement of an alliance with MCI-Worldcom and the announcement of a merger with KPN. These deals, had they gone ahead as originally planned and announced, would have transformed Telefonica in a truly global operator controlled by non-Spanish shareholders, which would have made it very difficult for the Spanish government to keep any sort of residual control on the company.

The merger with KPN was eventually stopped by the Spanish government, using the threat to exercize its golden share, on the grounds that KPN was a company controlled by the Dutch government. The Spanish authorities claimed that the resulting entity would reverse the initial privatization in a paradoxical way. The fact that the announcement of the merger had a positive impact on shareholder value and that the government stopped it, is illustrative of a discrepancy between the control structure that maximizes shareholder value and the control structure that maximizes the objective function of the government. The ability of the government to stop the deal shows that governments that privatize, even when they lose many regulatory powers, may still have a strong influence on the control structure of the firm.

A few weeks after the merger with KPN collapsed, the Chairman of Telefonica, who had been appointed by the government when the company was not yet fully privatized, resigned under strong pressure from the government (see below). The collusive equilibrium between manager and politicians was collapsing and a new manager was needed to sustain it.

To summarize the findings as they relate to the hypotheses in Table 2, there is evidence of political interference with the company's control, which is consistent with Megginson's notion of privatization with political and economic ends, and with lingering political controls in privatized firms. There is partial evidence of the free cash flow theory, as some of the acquisitions had a significantly negative effect on shareholder value but others had a positive effect, and overall the effect was not significantly different from zero. Still, it is clear that changes in the company's control were welcomed by shareholders (although they were eventually stopped by government intervention), revealing that the existing control structure was not optimal. Some of the predictions of Kole and Lehn (1997) about a better alignment between managers and shareholders are confirmed, but the findings also confirm that this process of better alignment was subject to inertia originated in the political constraints faced by the company. As predicted by Hyman and West (1989), the dividend payout was eliminated. However, the reaction of shareholders to this announcement was not statistically significant. In general, there is no evidence that privatization involved an alignment between the interests of shareholders and those of the managerial team. On the contrary**, agency problems** were clearly present, due to a disperse shareholding and political interference.

ii) Regulation and Policy

The first striking fact in the analysis of public policy is the diversity of institutions that have a potential impact on the value of the company. Contrary to simplistic views of "a firm" and "the regulator," it is apparent from the event selection that decision-makers that can influence the value of Telefonica include the Spanish government, the Spanish Telecommunications Agency, foreign governments in countries where the company has invested, the European Commission and other institutions of the European Union, the Courts, the Spanish Stock Exchange regulator and the Spanish anti-trust authority. Decisions or announcements by the Spanish government, the Spanish Telecommunications Agency, the European Commission and the Brazilian government are found to have a significant impact on the share value of the firm.

To find further insights, these "policy" effects have been aggregated in three groups: 1) Policy by the Spanish government (PG), 2) Policy by the Spanish Telecommunications Agency (PR), 3) Policy by other institutions (PO).

There is no evidence of capture at the government level (upper level capture), in the traditional sense of the government being captured by the firm's shareholders. The cumulative effect of the Spanish government's decisions on shareholder wealth is negative but not statistically significant.

The cumulative effect on shareholder value of announcements made by the Spanish telecommunications regulator (lower level capture) is positive, which would be consistent with the new regulatory agency being captured by Telefonica. However, this aggregate result must be interpreted with caution, since it is due to two particular events (events of November 30, 1999, and February 8, 2000, in table 3), in both cases announcements that the Telecommunications Agency would start investigations, without yet revealing the results of these investigations.

Announcements of decisions on other important policy issues, such as interconnection prices, appear to have a negative effect on shareholder value.

Policy decisions by other institutions do not have an overall statistically significant effect. The aggregate effect of all policy announcements on shareholder wealth is not statistically significant, which is consistent with a checks and balances multi-principal view of the government. The European integration process and the process of liberalization itself, by which different firms have a stake in lobbying the policy-makers in opposite directions (for example in the contentious issue of interconnection prices), make it more difficult for a telecommunications incumbent to influence the general direction of the regulatory process.

Two subtle effects must also be recognized. First, Telefonica's shareholders did not expect to lose from the liberalization process per se. The European Commission was the main advocate of such liberalization policy, and when it announced that it would press Spain to speed liberalization in the Telecommunications sector, the reaction of the firm's shareholders was positive and statistically significant. This reflects the view of shareholders that Telefonica was in a good position to benefit from liberalization, due to incumbency advantages and the growth in demand that was expected at the time as a result of deregulation. Second, Telefonica faced now regulatory risk not only in Spain, but also in other countries, and most notably in Latin America. Governments such as the Brazilian had been under growing pressure from voting consumers and rivals of Telefonica to reduce the advantages that were conferred to privatized incumbents (controlled by Telefonica) upon privatization. This is reflected for example in the negative and significant abnormal return when a Brazilian minister announced fines to Telefonica for inadequate service on March 1999 (event of March 29, 1999, in table 3).

The size and importance of the company gives it a high lobby potential in front of the regulators and decision makers. The capture hypothesis would suggest that the public powers abide to the pressure of Telefonica, since consumers are too numerous and disorganized to counterbalance the producers' clout. However, the political economy of regulated sectors is more complex than that, as seen above in the subsection presenting the hypotheses. The bitter arguments that have taken place between Telefonica and the regulatory bodies can be related to the multi-level structure of government. The company's management may have captured policy-makers in some decisions and not in others. Overall, with more firms competing for policies after liberalization, it is very difficult that the company manages to capture the general direction of regulatory policies. Telefonica's executives showed a certain level of collusion with the top echelons of the government, interested in promoting media interests and maintaining some residual control in the company. Colluding with policy-makers in policies related to the control of the company, about which voters are not well informed and about which managers did not face the opposition of well-organized rivals, was easier than capturing regulatory policy.

Hence, in relation to the hypotheses presented in Table 1, our findings are consistent with Grossman and Helpman's view that those policies about which voters are informed or about which there are competing lobbies, are policies that will not be captured by one particular lobby. Privatization and corporate governance policies create rents for managers, and at the same time voters are less informed about them (than they are about, say, pricing policies). These rents may take the form of an inefficient use of the **free cash flow**. Politicians may want to share these rents to maximize their own interests, which may not coincide with those of uninformed voters. This reflects the **interplay between agency problems in politics, and agency problems in the firm**, which is consistent with the predictions in Trillas (2000).

Managerial turnover and political objectives in privatized Telefonica

The replacement of Villalonga[20] is a clear example of the presence of political constraints in the company's control. Villalonga eventually resigned on 26 July 2000. His forced replacement is similar to a typical management change forced by a block-holder, although in this case the block-holder is *de facto* the government through the threat to use its golden share.

Several aspects of the strategy of Telefonica were controversial from the point of view of the public opinion and the political arena. Two of these aspects were the stock options plans and the entry in the media industry. The stock options granted to the top executives of the company attracted political and media attention and were criticized as an instance of inequality of opportunities in the new economy. The entry of the company in the media industry also put Telefonica's management in the spotlight, since some commentators claimed that it reflected collusion with the political powers. De Angelo et al. (1996) show the important consequences that this "politics of finance" may have in mobilizing constituencies that eventually may trigger political action against the company's shareholders.

Villalonga had been appointed by the Spanish government when the company had still the state as the largest shareholder in 1996. For a long time, the Chairman had been understood to be

[20] A few days before the Chairman's resignation, the financial press argued that the campaign to remove Juan Villalonga, Telefonica's chairman, was unsettling investors and could harm the company. A coup by hard core members BBVA and La Caixa would signal that Telefonica had other masters to serve. As reported in the FT Lex Column in July 18, 2000: "*Looking beyond personalities, the basic problem is that Telefonica has its roots as a Spanish company. Spain's government and national banks are unwilling to surrender their influence over what is increasingly a genuine multinational. But surrender they must if Spain's new breed of globally ambitious companies is to compete successfully on the world stage.*"

the government's man in the company, and the hard core of shareholders did nothing to undermine his powerful position.

However, since late 1999, the high profile of Villalonga, the controversial stock options plan and his unrelenting deal-making, were starting to be politically costly for his political principals. The government first let it know its disagreement with the stock option plan of Villalonga and his team, which had caused heavy political upheaval in the run-up to the March 2000 general election.[21] Then it forced changes in the alliance with BBVA in May 2000, which also caused controversy in the run-up to the election, and which was seen by some as an attempt of Villalonga to protect his personal role in the company. Subsequently, the government blocked the merger with KPN on the grounds that this would place the Dutch government as the main shareholder of Telefonica. Finally, the government encouraged an inquiry by the Spanish stock exchange regulator to probe whether Villalonga could be charged with illegal insider trading for a minor stock options operation prior to the deal with WorldCom-MCI two years ago (the probe found no evidence of irregular dealing). Villalonga was eventually replaced in a board meeting by Cesar Alierta, himself a member of the board of Telefonica and previously Chairman (also appointed by the government prior to privatization) of the tobacco firm Altadis.

5. Conclusion

Overall, the results of this event study show no strong evidence of capture of regulators or politicians by the shareholders of Telefonica, but they show evidence of collusion between the Spanish government (imperfectly controlled by voters) and the management of the firm. This collusion is possible due to the endogenous managerial rents that result from agency problems in the firm (and may take the form of an **inefficient use of the free cash flow through wasteful but politically valuable acquisitions**). Hence the **interaction between political and managerial agency problems**.

Two sets of evidence reinforce the hypothesis that managers did collude with politicians. First, shareholders reacted positively to news of mergers and alliances that would have significantly altered the control structure of the company, and the most important of these mergers, the one with KPN, was stopped by the government. Second, the manager that was appointed by the government pre-privatization stayed in his position for three years after full privatization, and the government was able to force his resignation when there was disagreement between manager and government (as a result of the collapse in the collusive equilibrium), even though the ownership was fully private.

[21] The proximity of the German general election in 2002 was also suggested to be a reason for the forced resignation of DT's chief executive, Ron Sommer (see *The Economist*, 19/07/2002).

The privatization of Telefonica took into account both political and economic ends, which is consistent with recent empirical research on privatization around the world. Political mechanisms of control were in place after privatization, in particular the golden share. Some deals that would have been positive for shareholders were not completed, and some of the deals that were completed had a negative effect on shareholder value. The operation of the different potential managerial disciplining devices in Telefonica was far from optimal. No strategic private block holder exercized true authority in the company in the period under study. The government's golden share prevented the market of corporate control from operating normally. The Board of Directors was dominated by the management whose ultimate authority depended on the government, as was shown with the replacement of Villalonga by Alierta. However, the fact that Telefonica was quoted in several stock markets was a relevant constraint for the management's behaviour.

Technological change and deregulation create new conditions in the environment of telecommunications firms. They now operate in global product markets and are followed and scrutinized by the global financial markets. As a result of this, the boundaries and key skills in the industry change. National incumbents try to become global operators in a context of high uncertainty and significant agency problems inside the firms.

APPENDIX

Table 3: Full List of Events

Date	Event Description	Event Type	3day AR	t-stat
March 3, 1996	PP wins the national election	PG	-0.0682	-2.877
June 7, 1996	The Spanish government appoints Juan Villalonga as Chairman of Telefonica	PG		
June 8, 1996	The government announces plans for Telecommunications policy: Retevision as second operator, creation of regulatory agency and conditions for participation of Telefonica in cable.	PG		
June 12, 1996	The government announces that telecom deregulation may be slowed down	PG	0.0723	2.155
October 25, 1996	The European Commission is pressing Spain to speed liberalisation of its telecoms sector	PO	0.0441	1.86
November 8, 1996	The government announces a 10 year Golden Share on Telefonica	PG	0.0076	0.321
November 29, 1996	Telefonica reaches an agreement with other corporations, both public and private, to develop a new digital TV platform	MA	0.0022	0.094
December 9, 1996	The government announces preparations for the public offer of its remaining stake in Telefonica.	PG	0.0273	1.154
December 18, 1996	Telefonica obtains a 35% stake in Companhia Riograndense de Telecomunicacoes (CRT) of Brazil.	MA	0.0048	0.203
January 15, 1997	Telefonica announces that coinciding with total privatization it will reduce to 18 the number of Directors and introduce corporate governance reforms "including recommendations of the most prestigious reports"	MG	0.0063	0.267
January 29, 1997	The Board appoints nine "independent" Directors by cooptation	MG	-0.0115	-0.485
March 15, 1997	Officials indicated yesterday the interconnection fee could be Pta2 or Pta2.5 a minute, considerably less than the Pta6.5-Pta9 Telefonica hoped to earn from rival companies.	PG	-0.0496	-2.094
March 24, 1997	The Spanish government is to fix a low telephone interconnection fee in order to allow Retevision, its planned second telecoms operator, to compete aggressively in the domestic market against the national operator, Telefonica.	PG	0.0222	0.936
April 18, 1997	Telefonica announces a strategic alliance with BT and reconsiders its participation in the European Alliance Unisource	MMA	0.0374	1.578
May 2, 1997	The Spanish government has resolved a dispute with the European Commission by agreeing to measures to put Airtel Movil, its second mobile telephone operator, on an equal footing with Telefonica, the incumbent operator.	PO	0.0045	0.189
June 19, 1997	A negotiated settlement to compensate Airtel, Spain's second mobile telecommunications operator, has ended one of the Madrid government's longest deregulatory battles with the European Commission	PO	0.0327	1.379
June 27, 1997	The European Union rules that the Spanish government's decisions on Digital TV violate the Treaty of Rome.	PO	-0.0255	-1.077
July 24, 1997	Telefonica informs that it is negotiating the acquisition of a participation in Antena 3	MA	-0.0255	-1.078
July 29, 1997	Telefonica acquires 25% of Antena 3 TV	MA	0.0197	0.831
August 8, 1997	Telefonica announces that it will take control of Antena 3 TV and through it of 40% in the company that has the rights of the pay per view football games	MA	0.0134	0.563
August 15, 1997	The European Commission has warned Telefonica, the Spanish telecommunications group, not to press ahead with controversial television plans until they have been cleared on competition grounds.	PO	-0.0132	-0.557
September 24, 1997	Telefonica reaches a strategic agreement with the Group Recoletos/Pearson. Telefonica will acquire 20% of Recoletos Compañia Editorial	MA	0.0582	2.456
March 9, 1998	Telefonica reaches a strategic agreement with WorldCom/MCI	MMA	0.051	2.151
March 16, 1998	In a meeting with institutional investors, the company announces a growth strategy focused to increase share value, instead of distributing dividends. It also announces that it may float TISA in the stock market and that the hard core will stay in place	MA	-0.0077	-0.325
June 19, 1998	A consortium participated by Telefonica acquires the Brazilian company CRT for US$ 1.018 million	MA	-0.0288	-1.214
June 24, 1998	An extraordinary shareholders meeting approves defensive measures against takeovers and proxy fights	MG	0.0426	1.797
July 23, 1998	Telefonica wins the contest for 51% of voting shares of Compañia Intel from El Salvador	MA	-0.0254	-1.073
July 30, 1998	In an auction that took place in the stock exchange of Rio de Janeiro, a consortium leaded by Telefonica obtains the operating companies Telesp, Telerj and Tele Sudeste Celular	MA	-0.0125	-0.528
September 8, 1998	Telefonica buys 100 hundred radio stations in Spain.	MA	-0.0142	-0.599
October 29, 1998	CMT gave the green light to the latest interconnecting tariff proposal the proposal is 20 per cent cheaper than previous proposals and between 30 and 50 per cent cheaper than the original offer proposed by Telefonica.	PR	-0.0155	-0.654
November 15, 1998	CMT criticises resistance of Telefonica to liberalization.	PR	-0.0145	-0.611
November 26, 1998	The CMT has fixed a period of three months (up to the end of February 1999) to reach a consensus amongst all agents (operators, manufacturers, associations and users) and Telefonica, the Spanish telecommunications operator, over the best formula to make it possible to maintain telephone numbers.	PR	0.0212	0.895
December 17, 1998	The Spanish development ministry promised the Association of Internauts (AI) yesterday that it would have a decree prepared for the first quarter of 1999 imposing on telecommunications operators technology that will allow them to offer a flat rate for users of the Internet	PG	-0.0103	-0.433
February 3, 1999	The Spanish restrictive practices court has fined Telefonica, the Spanish telecommunications group Pta 580 million for abuse of a dominant position, setting "predatory" prices and discriminating against a competitor, British Telecom (BT)	PO	-0.006	-0.254
February 12, 1999	Renato Guerreiro, the chairman of the Brazilian National Telecommunications Agency (Anatel), yesterday said that the telephone operators Telerj, Telefonica (former Telesp), Telpe, Teleamapa, Teleacre, Telepara and CRT, will be fined a total of up to R$ 51.6 million for delaying the installment of 271,000 previously paid fixed lines.	PO	0.0254	1.072
March 29, 1999	Brazil's justice minister says he will impose a maximum fine of R$ 2.9m ($ 1.8m) on each of the privatised telephone companies serving Sao Paulo and Rio De Janeiro for providing inadequate services.	PO	-0.0438	-1.849
April 17, 1999	The Spanish government tried to put the brakes on inflation yesterday by announcing a sweeping package of measures including cuts in the prices of electricity, gas and long-distance telephone calls.	PG	-0.0188	-0.794

May 22, 1999	The Spanish telecommunications sector watchdog (CMT) has decided in favour of Telefonica de Espana SA in regard to the complaint against its alleged dominant abuse of position. The regulator will allow Telefonica to continue selling basic telephony services, satellite television, through Via Digital, and Internet access, via TeleLine, saying it does not infringe the moratorium imposed on Telefonica from supplying cable services	PR	0.0101	0.426
June 24, 1999	European telecoms operators will have to hive off their cable interests into structurally separate companies under a directive adopted by the Commission yesterday	PO	-0.0124	-0.523
July 7, 1999	Anatel, the government telecommunications regulator in Brazil, has said it may impose fines of R$ 40m (US$ 22.6m) on the three regional companies and one long-distance carrier that now handle the bulk of the country's telecoms.	PO	-0.0099	-0.416
September 20, 1999	The Spanish government is to award four licences over the next few weeks to operate the new Universal Mobile Telecommunications System (UMTS) mobile telephony technology.	PG	0.0154	0.651
November 30, 1999	The Spanish telecommunications market commission (CMT) has noticed that Internet users who are customers of operators other than Telefonica SA, the Spanish telecommunications group, have problems when trying to take advantage of discount vouchers marketed by Telefonica for Internet connection. Jose Maria Vazquez, chairman of CMT announced yesterday (29/11/99) that the matter would be investigated.	PR	0.0571	2.41
December 14, 1999	A Madrid court yesterday (13/12/99) ruled that Teleline, the Spanish telecoms group Telefonica's internet service provider, must cancel two clauses in the contract its clients must sign, and make significant changes to two other clauses.	PO	-0.0155	-0.654
January 13, 2000	Telefonica announces a take-over bid to acquire 100% of 4 of its Latin American subsidiaries	MA	0.0605	2.554
February 8, 2000	The Spanish telecommunications market commission (CMT) is investigating several companies in the sector to determine whether they are guilty of a lack of transparency or obstructing competition with the launch of offers restricted to their customers or to groups of business and domestic customers. CMT is acting in response to complaints that several operators (Retevision, Telefonica, Euskaltel and Agrupacion de Operadores de Cable) have made against each other regarding the offers made to bodies such as chambers of commerce and groups of customers.	PR	0.0593	2.501
February 11, 2000	Strategic agreement with BBVA	MMA	0.0339	1.43
February 21, 2000	The Spanish high court is to oblige Telefonica, the country's telecommunications giant, to share its infrastructure and networks with other operators, having rejected the group's complaint about having to do so, presented against Retevision and the ministry of development.	PO	-0.0305	-1.288
March 11, 2000	Announcement of conditions of UMTS contest.	PG		
March 12, 2000	PP wins election by overall majority	PG	0.008	0.339
March 18, 2000	Telefonica yesterday announced a Euros 5.5bn (Pounds 3.36bn) agreed bid for Netherlands-based Endemol Entertainment, Europe's leading independent TV production company	MA	-0.0224	-0.944
April 25, 2000	The Spanish government said yesterday it was launching an inquiry into possible antitrust measures against Telefonica, the country's dominant telecommunications operator, and the BBVA bank group over an internet alliance agreed in February.	PG	-0.0017	-0.071
May 2, 2000	Telefonica was understood to be negotiating a tie-up with Dutch telecoms group KPN.	MMA	0.1078	4.548
May 08, 2000	Royal KPN NV and Telefonica SA said they called off merger talks after plans to create Europe's fourth-largest phone company failed to win sufficient support from the Spanish company's board	PG	-0.0699	-2.95
May 16, 2000	Spain's Terra Networks SA--plans to buy one of America's biggest Internet ventures, Lycos Inc. An official with one of the companies confirmed rumors that the Spanish company will acquire Lycos	MA	-0.0355	-1.498
June 1, 2000	Yesterday's board meeting of Telefonica, the first since its failed merger with the Dutch operator KPN, concentrated on the acquisition of the US portal Lycos by Terra, Telefonica's internet subsidiary. The operation was approved by all the board's members	MA	0.0199	0.841
June 6, 2000	Telefonica, the Spanish telecommunications company, yesterday (05/06/00) reached an agreement with German publishing group Bertelsmann to acquire its Mediaways internet services subsidiary	MA	-0.0494	-2.083
June 10, 2000	KPN, the Dutch telecoms company, is still considering a merger with Spanish rival Telefonica. KPN's change in attitude coincided with the solution to one of the major points of difference which hindered talks last month. Yesterday (9/6/2000), KPN reached an agreement with the Dutch government about a quicker sale of the entire 43.25 per cent government stake in KPN.	MMA	-0.0009	0.024
June 18, 2000	Six weeks after KPN and Telefonica admitted their merger talks had failed, they are at it again, but this time are trying to win the support of the suspicious governments which blocked the previous attempt.	MMA	-0.0693	-2.922
June 24, 2000	The Spanish government yesterday introduced a number of measures to liberalise the economy. Companies affected by the measures, such as energy companies oil producers and telecommunications operators, saw their share prices rise following the announcement.	PG	0.0193	0.816
July 3, 2000	Telefonica said yesterday it had completed a Euros 14bn (Dollars 13.4bn) equity financed buy-out of three Latin American affiliates and expected to gain outright ownership of a fourth this week.	MA	0.1174	4.954
July 26, 2000	Villalonga resigns as Chairman of Telefonica	PG	-0.0022	-0.093

List of Event Types: PG (Governmental Policy), PR (Policy by the Spanish Regulator), PO (Policy by Other Institutions), MA (Managerial Actions on Acquisitions), MMA (Managerial Actions on Mergers and Alliances), MG (Managerial Actions on Corporate Governance).

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Table 1: Hypotheses

Area	Hypothesis	References
The Firm		
Effects of Privatization	Free Cash-Flow	Jensen (1986)
	Privatization has political and economic ends	Megginson et al. (1999) and Bel (2002b)
Effects of Deregulation	Better alignment between managers and shareholders	Kole and Lehn (1997)
	Lower dividend payout	Hyman and West (1989)
Policy and Regulation		
	Upper level capture	Grossman and Helpman (2001)
	Lower level capture	Stigler (1971), Laffont (2000)
	Information and liberalization decrease capture	Grossman and Helpman (2001)
Firm's Agency Problems + Politics' Agency Problems	Collusion between politicians and managers	Trillas (2000)

Table 2: Cumulative Abnormal Returns (CAR) by Event Type

	MA	**MMA**	**MG**	**PG**	**PR**	**PO**
N	51	18	9	45	18	36
CAR	0.07479	0.15988	0.037448	-0.04851	0.117745	-0.0502
t-stat	0.765	2.75***	0.91	-0.53	2.03**	-0.61138

List of Event Types: MA (Managerial Actions on Acquisitions), MMA (Managerial Actions on Mergers and Alliances), MG (Managerial Actions on Corporate Governance), PG (Governmental Policy), PR (Policy by the Spanish Regulator), PO (Policy by Other Institutions),.

*** : significant at 1% level.

** : significant at 5% level.