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Article

Determinants of corporate restructuring: The relative importance of corporate governance, takeover threat, and free cash flow

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Abstract

This study seeks to estimate the relative importance of free cash flow, corporate governance, and takeover threat in determining financial and portfolio restructuring. The free cash flow hypothesis and agency theory prescriptions are used as the basis for developing a model of restructuring. A simple analysis of variance method is used to decompose restructuring transactions and outcomes into the three effects. The results support the hypothesis that financial and portfolio restructuring are motivated, in part, by agency costs. Decomposition of variances indicates that restructuring is equally explained by free cash flow and interaction of governance and takeover threat with free cash flow.

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