

The Research Centre of the School of Economics and Business,
in cooperation with **the Bank of Slovenia,**
cordially invites you to a research seminar
on **Wednesday, 19th May 2021,**
at **10:00 CEST** via platform **Zoom**

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will present the project research results of a project:

Measuring the effectiveness of bankruptcy reorganization proceedings in Slovenia and post-reorganization firm survival

I.

The "Debt to equity", drawing on a novel dataset of bankruptcy reorganizations from Slovenia and exploiting variation in the incidence of debt-to-equity conversion across firms, provides the first empirical analysis of the role of debt-to-equity conversion in bankruptcy reorganization as a determinant of post-bankruptcy firm survival. To address endogeneity concerns, we used a plethora of controls and fixed effects, quantify the sensitivity of our estimates to selection on unobservables, and rely on instrumental variable methods. We find that debt-to-equity conversion is robustly negatively associated with prospects of post-bankruptcy firm failure. Our findings provide a novel input into ongoing debates about the appropriate design of corporate bankruptcy institutions.

II.

In the "post bankruptcy failure" paper we provide the first analysis of management turnover and ownership change as determinants of post-bankruptcy failure of small businesses. Examining micro-level data on Slovenian firms that attempted bankruptcy reorganization and utilizing multiple empirical approaches, we find that changes prior to completed reorganization proceedings never

reduce, and in the case of foreign incoming owners or insider incoming managers in fact increase, prospects of firm liquidation. Firm liquidation prospects robustly decrease only with changes that occur after completed proceedings, involve ownership transfer, and feature domestic incoming owners. These results continue to hold under an alternative conceptualization of firm failure. Our findings are consistent with the importance of disruption costs in the process of turning around ailing small businesses. Our analysis casts novel light on the ongoing debate about the consequences of debtor-in-possession rule in bankruptcy and the relevance of successor origin in management turnover and ownership change for firm outcomes.

III.

In the "filtering failures" paper we examine the effectiveness of bankruptcy institutions at promoting socially efficient allocation of resources. Under the Slovenian simplified reorganization procedure, firms with rejected reorganization proposals are not automatically liquidated. This unique institutional feature facilitates an estimation of the extent of different types of filtering failures. Based on an ex-post conceptualization of firm viability, Type I errors (the acceptance of plans by non-viable firms) are more likely than Type II errors (the rejection of plans by viable firms) and the overall incidence of filtering failure is 27%. Based on an ex-ante conceptualization of firm viability, any given reduction in Type II errors would give rise to three times as many Type I errors. We contextualize our findings in the light of prior results in the literature, alternative mechanisms for insolvency resolution, and related bankruptcy reorganization schemes internationally where courts are awarded a comparatively more prominent role.

Please register for the free seminar at <http://raziskave.ef.uni-lj.si/a/1046>
by Tuesday, 18th May 2021.

Access details will be sent prior to the event to signed up users.

We look forward to seeing you!