

EXTERNAL EQUITY FINANCING OF AGRIFOOD FIRMS

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ABSTRACT

This dissertation investigates the determinants that influence a firm's decision to use external private equity in agriculture. Scholars have recognized the benefits of external equity finance for agricultural firms (i.e., capital derived from a source other than retained earnings and existing owners) and the use of external equity in agriculture has increased since 1990. This is important because this source of capital allows farms to exploit business opportunity, particularly for companies that pose risks that discourage debt capital, and because private equity has fostered entrepreneurial activity. However, the literature addressing this phenomenon is limited. The asset specificity approach (Williamson 1988) offers insightful contributions to understand the choice of financial mechanisms. This approach brings additional insights and complements agency—the dominant perspective in finance. The analysis focuses on the differential redeployability of the assets involved in the production of different agricultural product. I construct an international dataset of agricultural companies that receive external private equity finance to test hypotheses about the determinants of using external equity finance. Results show that the attributes of the assets involved in agriculture are important factors to explain financing choices in agriculture. This research contributes to the understanding of the role of asset specificity to explain financing decisions and to the identification of what types of asset specificity play an important role in agriculture.