Debt Structure as a Strategic Bargaining Tool
by Yue Qiu

Discussion by Jonathan B. Cohn,
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Debt as source of bargaining power vis-a-vis non-financial stakeholders (Bronars & Deere, 1991; Perotti & Spier, 1993; Dasgupta & Sengupta, 1993)

Evidence:

- Mixed evidence that greater stakeholder bargaining power → more debt (Bronars & Deere, 1991; Matsa, 2010; Lee & Mas, 2012; Simintzi, Vig & Volpin, 2015; Schmalz, 2015)
- More debt → better bargaining outcomes (Benmelech, Bergman & Enriquez, 2009; Towner, 2015)
Debt load & strategic bargaining

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This paper

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- Airline industry as laboratory
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Main findings
- More dispersed debt (more bonds, more creditors per bank loan) \(\rightarrow\) lower compensation per employee
  - Greater sensitivity shortly after 9/11
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  - Following union election victories (RD approach: just wins vs. just loses),
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  - Following union election victories (RD approach: just wins vs. just loses),
    - No change in debt level
    - Increase in bonds (and bond issuance), decrease in bank debt, larger bank loan syndicate size
Summary of thoughts/suggestions

- Nice addition to the literature
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▶ Nice addition to the literature

▶ RD test: Power & magnitude?

▶ Compensation test: Issue with wage data may complicate interpretation

▶ Couple of other tests to consider

▶ Sample formation issues/suggestions

▶ What does it all mean?
1. RD test: Power & magnitudes?

- Statistical power?
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  - 300-400 union votes, smaller # w/ outcomes close to 50%

\[ \Pr(X \rightarrow Y | \Phi) = \text{Power} \]

\[ \Pr(\Phi | X \rightarrow Y) = \text{Theory} + \Pr(\Phi | X \nrightarrow Y) \]

- Extend RD tests beyond airline industry
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- Extend RD tests beyond airline industry
2. Issue w/ compensation data?

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- More generally, how reliable is the airline compensation data?
3. Other tests to consider

- Theory: Use dispersed debt to mitigate strong employee bargaining power

Findings:
- More dispersed debt $\rightarrow$ lower compensation per employee
- Union election victory $\rightarrow$ debt dispersion $\uparrow$

Does unionization lead to higher compensation?
Does dispersed debt offset this effect (i.e., look after union elections specifically)?
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- Mergers?
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- Do successful union votes perpetuate w/in firm?
5. What does it all mean?

▶ Conclusion: Firms increase debtholding dispersion but maybe not debt level.
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- The whole point is that the firm wants to create the threat of financial distress.

- Are there other capital structure margins that firms adjust to enhance bargaining power? (e.g., short- vs. long-term debt)