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Conference Agenda

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Session Overview

Date: Saturday, 12/Sep/2015

8:00am - 9:15am — **Registration and arrival coffee**
Entrance Hall

9:15am - 9:30am — **Welcome and opening remarks**
Nelson Mandela Lecture Theatre

Professor Thomas Noe, Saïd Business School, University of Oxford
IFABS 2015 Oxford Conference Chair
Professor Meryem Duygun, University of Hull Business School
President, IFABS

9:30am - 11:00am — **SAT1-01: Special Session on Governance, Location and Distance**
Nelson Mandela Lecture Theatre

Session Chair: **Raghavendra Rau**, University of Cambridge-Judge Business School, United Kingdom

Country governance and U.S. multinational company subsidiary location decisions

Atanas Mihov[1], Leandro Sanz[1], Detelina Stoyanova[2]
[1]Federal Reserve Bank of Richmond, United States of America; [2]Florida State University, United States of America

Using a novel, large firm-level data set, we examine how country governance quality affects U.S. multinational companies' expansion decisions into foreign markets. The analysis shows that country governance is indeed an important factor for firms' location choices. Specifically, using instrumental variable regressions among other econometric techniques, we show that firms tend to operate and have more subsidiaries in countries with good governance. The effects are stronger for dimensions such as control of corruption, regulatory quality, rule of law and government effectiveness as compared to others such as voice and accountability and political stability. In addition, we document important interaction effects between country governance and corporate governance, suggesting that U.S. multinationals with bad corporate governance are more likely to operate in locations with bad country governance. Importantly, we provide evidence that multinational firm location decisions have real corporate implications, with firms operating in countries with poor governance having lower value and increased risk.

Travel distance and firm valuation: International evidence

Marc Steffen Rapp[1], Thomas Schmid[2], Daniel Urban[3]
[1]Philipps-Universität Marburg, Germany; [2]Hong Kong University, Hong Kong; [3]Technische Universitaet Muenchen, Germany

Board members often cover large travel distances when they simultaneously serve in several firms. Based on a novel board dataset covering 35,000 firms across 54 countries, we show that travel distance signals board member quality as we find that longer travel distances are correlated with higher firm valuation. This effect stems from superior matching between firms and board members. We further document that busyness on average reduces firm valuation. Distant board members, however, more than compensate for negative effects of busy board members.

When and why do controlling shareholders expropriate?

Yan-Leung Cheung[2], Raghavendra Rau[1], Aris Stouraitis[3], Weiqiang Tan[3]
[1]University of Cambridge-Judge Business School, United Kingdom; [2]Hong Kong Institute of Education; [3]Hong Kong Baptist University

Studies of the incentives behind the expropriation of minority shareholders of publicly listed firms by their controlling shareholders focus on the publicly listed firm's performance or characteristics and treat the controlling shareholder as a black box. In this paper, we examine when and why controlling shareholders expropriate by linking the ex ante perception that the publicly listed firm will be expropriated to the performance of its controlling shareholder. We analyze pairs of publicly listed firms and their non-listed parents and assess expropriation by examining cash balances on the publicly listed firm's balance sheet (their level and market valuation using the Faulkender and Wang (2006) model), and intra-group loans from the publicly listed firm to its parent (direct fund transfers and market valuation of the receivables generated by these transfers). Across all four measures, our results are consistent with more tunneling out of the publicly listed firm occurring when its controlling shareholder is under-performing.

9:30am - 11:00am — **SAT1-02: Life cycle dynamics and financial distress**
Rhodes Trust Lecture Theatre

Session Chair: **Shantanu Banerjee**, Lancaster University, United Kingdom

The industry life-cycle, debt market conditions and the acquisition motive for going public

Magnus Blomkvist
Audencia Nantes - School of Management, France

This study argues that the initial public offering (IPO) market is an efficient tool to facilitate industry restructuring. Firms operating in declining industries are 68% more likely to conduct acquisitions the year following their initial public offering compared to firms operating in growth industries. Firms in low-growth industries behave in a peculiar way. First, their going public to acquire decision is not aligned with the industry's overall M&A activity. Second, they are more likely to go public during times of low debt market liquidity to acquire compared to growth firms. I argue that firms in low-growth industries are forced by low debt market liquidity to access the equity market to obtain deal financing. The pattern is mainly driven by small firms that are more likely to be financially constrained. This is consistent with the pecking order theory of capital structure.

Corporate life-cycle dynamics of cash holdings

Wolfgang Drobetz[2], Michael Halling[1], Henning Schroeder[2]
[1]Stockholm School of Economics, Sweden; [2]University of Hamburg, Germany

This paper shows that the corporate life-cycle is an important dimension for the dynamics and valuations of cash holdings. Our results indicate that firms' cash policies are markedly interacted with their strategy choices. While firms in early stages and post-maturity stages hold large amounts of cash, cash ratios decrease when firms move towards maturity. Much of this variation in cash holdings is attributable to a changing demand function for cash over the different life-cycle stages. Trade-off and pecking order motives are of different importance for cash policies dependent on a firm's life-cycle stage. An additional dollar in cash is highly valuable for introduction and growth firms, while a dollar in cash adds, on average, less than a dollar in market value for firms in later life-cycle stages, most likely due to increasing agency problems. Most of the dynamics in cash holdings are observed at life-cycle transition points rather than during the different life-cycle stages. Finally, the secular trend in cash holdings seems strongly attributable to increases in cash in the introduction and the decline stage.

In the path of the storm: Does financial distress cause non-financial firms to risk-shift?

Oksana Pryshchepa[3], Kevin Aretz[2], Shantanu Banerjee[1]

[1]Lancaster University, United Kingdom; [2]The University of Manchester; [3]The University of Birmingham

We use a new proxy capturing manager-initiated changes to firm risk together with a unique identification strategy to determine whether financial distress causes non-financial firms to risk-shift. We derive the proxy from an application of modern portfolio theory to operating-segment data and use hurricanes as instrument for distress risk. Distress risk shocks lead moderately distressed firms to risk-shift. Risk-shifting is facilitated by closing low-risk segments and raises failure rates. Further evidence suggests that creditor interference keeps highly distressed firms from risk-shifting. Despite its importance, we are first to establish that some non-financial firms risk-shift in practice.

9:30am - 11:00am
Edmond Safra Lecture Theatre

SAT1-03: Corruption I

Session Chair: **Vania Sena**, University of Essex, United Kingdom

Impact of ownership and CEO gender on firms' efficiency in corrupted operating environment: Is bread gained by deceit sweet to a man?

Jan Hanousek[1], Jiri Tresl[2], Anastasiya Shamshur[3]

[1]Charles University, Prague, Czech Republic; [2]University of Nebraska; [3]Norwich Business School

In this study, we explore effects of bribery environment on firm efficiency. We employ a unique data set to comprehensively test the theoretical predictions set forth by both the economic and sociological theories. Our panel dataset covers 14 Central and Eastern European countries with over 76,000 firm-level observations from 2000 to 2013. Combining two different data sources we overcome data limitations and methodological deficiencies in previous studies. Our results support the general wisdom on the effects of bribery while shedding new light on efficiency of firms operating in corrupted environments. In particular, we study the interaction of bribery environment with firm ownership and CEO gender, respectively. When foreign company owners operate in higher bribery environments, bribery worsens its efficiency. However, more heterogeneous bribery environment offsets the negative effect. Lastly, female CEOs perform on average worse in corruption environment compared to a man.

Does corruption matter for analysts' earnings forecasts?

Emmanuel C Mamatzakis, Anna Bagntasarian

University of Sussex, United Kingdom

We shed light into the underlying relationship between governance, in particular corruption, and analysts' earnings forecasts. Although, there have been some discussions among policy makers, managers, and academics on the association between governance and earnings forecast, to date no silver bullets have been provided of the exact co-movement of the former with the latter. We bridge the gap in the literature by opting for indicators of governability, such as the control of corruption, the quality of government regulations, and government effectiveness. By employing a comprehensive data set for over 1286 US firms for the period 2000 – 2014, we present results that show strong positive association between the control of corruption and analysts' earnings forecasts. We extend this analysis also using corporate governance variables such as CEO equity incentives, and CEO power, whilst we examine for possible cross term association between corruption and the former. The paper, further, examines the impact of accrual manipulation on forecasts. Lastly, underlying causality strands and endogeneity issues are addressed opting for a flexible panel VAR model. Results show that shocks both in control of corruption and accruals positively/negatively affect earnings forecasts.

Entry mode, corruption and innovation: New evidence from Eastern Europe

Meryem Duygun[1], Vania Sena[2], Mohamed Shaban[3]

[1]University of Hull, United Kingdom; [2]University of Essex, UK; [3]University of Sheffield, UK

The purpose of this paper is to quantify the impact that corruption has on the MNE's entry mode, their propensity to innovate in foreign countries and their propensity to share knowledge with home firms.

In recent years, there has been a lot of empirical research on the causes and the effects of corruption across countries. While definitions vary, there is consensus that corruption refers to acts in which the power of public office is used for personal gain. Corruption is an integral part of governance quality, institutional transparency and even political stability. Existing literature suggests that MNEs are increasingly influenced by institutional instability, perceived risk and uncertainty in their process of investing in foreign countries. Some authors have found that corruption influences the MNE entry modes as they may choose non-equity modes or they may decide not to partner with local companies.

This paper builds on these studies and suggests that by influencing the entry mode into a country, corruption may influence the propensity of the affiliates to innovate and to collaborate with local firms. For instance, in high corruption environments, MNEs may decide to set up a fully owned subsidiary to insulate themselves from a certain type of corruption. However, this entry mode may reduce the capability of the affiliates to share knowledge with local firms with the result that its capability of innovating may be reduced.

To study how entry mode, innovation and knowledge sharing are jointly influenced by corruption, we estimate a simple trivariate probit model where the first equation models the entry mode (either via a Brownfield or a Greenfield) into a country, the second equation models the propensity of an affiliate to apply for a patent and the third equation models the propensity of an affiliate to cite a local firm's patent.

We source from Amadeus a data-set of Eastern European affiliates of large OECD multinationals and match them with their patent holdings (sourced from Patstat). The final dataset covers 10 years and most countries from Eastern Europe. To proxy corruption, we use the WDI and TI indicators of corruption.

The first batch of results shows that affiliates that are located in high-corruption countries tend to innovate less and cite less the patents owned by local companies. Also, in these countries, brownfields are the preferred entry mode, consistently with the previous literature.

9:30am - 11:00am
Lecture Theatre 04

SAT1-04: Bank risk and IPOs

Session Chair: **Michael Koetter**, Frankfurt School of Finance and Management, Germany

Financial synergies and the organization of bank affiliates: A theoretical perspective on risk and efficiency

Elisa Luciano[1], Clas Wihlborg[2]

[1]university of torino, Italy; [2]Chapman University, CA

We analyze theoretically banks' choice of organizational structures in branches or subsidiaries in the presence of government bailouts and default costs. We compare with stand-alone banks. These structures are characterized by different arrangements for internal insurance of affiliates against default. The cost of debt and leverage are endogenous. For moderate bailout probabilities, subsidiary structures, wherein the two entities provide mutual internal insurance under limited liability, have the highest private group value, but also the highest risk taking as measured by leverage and expected loss. We explore also the impact on social values and policy implications of "ring-fencing" of affiliates.

Financial distress risk in initial public offerings: How much do venture capitalists matter?

William L. Megginson[1], Antonio Meles[2], Gabriele Sampagnaro[2], Vincenzo Verdoliva[3]

[1]University of Oklahoma, Usa; [2]University of Naples, Italy; [3]Kingston University of London

Using a sample of 1,593 US firms that went public between 1990 and 2007, we find that VC-backed IPOs experience lower levels of financial distress risk post-offering than comparable non-VC-backed IPOs. After controlling for endogeneity, we find that this result is related to two main factors. First, the screening done by VC-investors involves selecting firms with specific characteristics that should lead to a lower risk of financial distress, both during the VC financing, and after the IPO. Secondly, VCs reduce risks when they supply portfolio firms with the needed equity capital to expand their business and with coaching, monitoring and valuable business contacts. As a consequence, the level of financial soundness of firms brought public with VC-backing is likely to be higher than that of non-VC-backed firms, although their financial soundness at the VC's investment date is analogous to that of non-VC-backed firms.

Bank rescues, risk taking, and rent seeking

Thomas Kick[1], Michael Koetter[2]

[1]Deutsche Bundesbank, Germany; [2]Frankfurt School of Finance and Management and IWH, Germany

We test if increased bank bailout prospects distort the competitive conduct of banks. We use regional political and past bailout traits to identify bailout expectations of both sound and distressed German banks between 1995 and 2010. Beyond moral hazard effects in terms of risk taking, we show that higher bailout prospects also increase market power. Whereas moral hazard applies to any banking type, competitive distortions are most severe among small, regional lenders. Bailouts of large banks by the Federal Market Stabilization Fund amplified competitive distortions.

9:30am - 11:00am
Lecture Theatre 05

SAT1-05: Mergers and Acquisitions

Session Chair: **Bryane Michael**, Oxford University - Geography Department, United Kingdom

Creditor rights, claims enforcement, and bond performance in mergers and acquisitions

Luc Renneboog[1], Peter Szilagyi[2,3], Cara Vansteenkiste[1]

[1]TIlburg University, Netherlands; [2]Central European University, Hungary; [3]University of Cambridge, UK

This paper shows that bond performance around M&A announcements is highly sensitive to cross-country differences in creditor protection. Using a global sample of M&As involving firms with outstanding Eurobonds, we find that both bidder and target bonds perform significantly better in cross-border deals exposing them to jurisdictions with stronger creditor rights and more efficient claims enforcement. These creditor protection spillovers are greater in scope than was previously assumed and promoted by the ability of creditors to do legal arbitrage. The spillovers are stronger for full takeovers, firms with relatively high asset risk, and riskier bonds with longer maturities.

M&A in tough times

Carlo Chiarella[1], Stefano Gatti[2]

[1]CUNEF, Spain; [2]Bocconi University

How does M&A activity change in periods of high uncertainty? This paper studies the impact of uncertainty on the timing and the quality of deals: first by tracking the volume of deals in periods of uncertainty, then by asking whether transactions announced during periods of uncertainty are fundamentally different in terms of performance from those undertaken in more quiet periods and finally exploring possible explanations. Evidence is consistent with the view that if uncertainty seems to de-incentivize external growth, it also creates opportunities. Periods of high uncertainty, which are defined on the basis of the VIX index, are associated with lower M&A activity. Yet, while deals announced in uncertain times show lower announcement return, both their long-run stock performance and operating performance are superior. Acquirers in periods of higher uncertainty benefit mainly from a more disciplined planning and execution of the deal, and to a smaller extent by negotiating from a stronger bargaining position.

What determines M&A legal and financial advisors' competitiveness in an international financial centre: Using China's going out policy as a natural experiment

Bryane Michael

Oxford University - Geography Department, United Kingdom

Roughly 60 of all publically announced advisors to China's Going Out M&A transactions from 2000 to 2014 from international financial centres (representing over 70% of deal value). Why did advisors, located so far away from both acquirer and target, manage to dominate the M&A advisory market in the early stages of Going Out? What can we learn from the smaller advisors located outside of these financial centres who managed to capture a growing share of this business in Going Out's later stages? In this paper, we hypothesize the existence of a "legal complexity externality" – that had the effect of increasing a financial centre's ability to attract international business. We look at the way that Going Out advisors have responded to advisory opportunities using what management theorists call "blue ocean strategy." We show that relationships across geography changed, as large global advisors lost their share of advisory business to advisors outside of international financial centres due to the interplay of these legal complexity externalities and blue ocean strategies. As cities helps foster changes in the law governing Going Out transactions – and as financial and legal advisors adapted their strategies to compete – cities gained or lost Going Out business. We provide 5 recommendations to existing and aspiring international financial centres looking to capture a larger share of global M&A and other investment advisory business.

9:30am - 11:00am
Seminar Room A

SAT1-06: Ownership, liquidity and investment

Session Chair: **John Thanassoulis**, University of Warwick, United Kingdom

Political turnover, ownership, and corporate investment

Jerry Cao[1], Brandon Julio[2], Tiecheng Leng[1], Sili Zhou[1]

[1]Singapore Management University, Singapore; [2]University of Oregon, USA

We examine the impact of political influence and ownership on corporate investment by exploiting the unique way provincial leaders are selected and promoted in China. The tournament-style promotion system creates incentives for new provincial governors to exert their influence over capital allocation, particularly during the early years of their term. Using a neighboring-province difference-in-differences estimation approach, we find that there is a divergence in investment rates between state owned enterprises (SOEs) and non-state owned enterprises (non-SOEs) following political turnover. SOEs experience an abnormal increase in investment by 6.0% in the year following the turnover, consistent with the incentives of a new governor to stimulate investment. In contrast, investment rates for non-SOEs decline significantly post-turnover, suggesting that the political influence exerted over SOEs crowds out private investment. The effects of political turnover on investment are mainly driven by normal turnovers, and turnovers with less-educated or local-born successors. Finally, we provide evidence that the political incentives around the turnover of provincial governors represent a misallocation of capital as measures of investment efficiency decline post-turnover.

Firm size and the ownership effect on commonality in liquidity

Ahmet Sensoy

Borsa Istanbul, Turkey

Previous studies support the hypothesis that institutional ownership leads to an increase in the liquidity commonality. By using a proprietary database of all incoming orders and ownership structure in an emerging market, we construct a liquidity proxy that measures the cost of trading for different positions, and reveal that for any position size to trade, institutional investors lead to an increase in the commonality for mid-to-large cap firms. However, only individual investors can lead to such an increase for small cap firms, which is in contrast to the literature. We also reveal that commonality decreases with the increasing number of investors (for both individual and institutional) at any firm size level; suggesting that as the investor base gets larger, views of market participants become more heterogeneous.

Real economy effects of short-term equity ownership

John Thanassoulis[1], Babak Somekh[2]

[1]University of Warwick, United Kingdom; [2]University of Haifa, Israel

Investor time horizon varies by company, industry and economic system. In this paper we explore the importance of this variation by studying the

impact of shareholder time horizon on the investment decisions of the firms they own, and externalities on the wider market. We demonstrate

theoretically that short-term shareholders cause Boards to care about the

path of the stock price, leading firms to pursue investments for signalling

reasons at the expense of long-term value. We demonstrate that short-termism has spillover effects, leading to higher costs of equity capital; bubbles in the price of input assets; and predictable excess returns. We formulate testable predictions within and across countries and evaluate these using existing evidence coupled with a new dataset on owner duration of U.S. and Germanic firms.

9:30am - 11:00am
Andrew Cormack

SAT1-07: Employment laws and finance

Session Chair: **Harley Ryan**, Georgia State University, United States of America

Employment protection legislation and credit access in Europe

Andrea Moro[1], Daniela Maresch[2]

[1]Cranfield University, United Kingdom; [2]Johannes Kepler Universitaet Linz, Austria

The aim of our research is to investigate the impact of employment protection legislation on the firms' credit access. This research is the first to address this topic by examining the impact of hiring and dismissal regulations on the probability to be denied credit or to be discouraged from applying for a loan in twelve EU countries. We find that greater flexibility in hiring employees and in structuring their working hours reduces the probability that the firm is credit constrained. In addition, we find that whereas banks facilitate credit access in contexts in which the dismissal procedures allow for the protection of the firms' knowledge, firms tend to be discouraged from applying for a loan if a dismissal entails financial consequences. Our results are robust to selection bias as well as to alternative econometric approaches.

Defined-benefit pension plans and financial asset liquidity: The role of employees' bargaining power

Bihong Huang, Xiaolin Qian, Lewis H.K. Tam

University of Macau, Macau S.A.R. (China)

Using pension data from IRS 5500 filings and the two-stage least-squares (2SLS) regression, this paper studies the impact of strategic interactions between employers and employees on the firm's financial decisions. We find that the DB-plan coverage is significantly and positively related with employees' bargaining power gauged by both industry-level and firm-level indicators. Firms with higher DB-plan coverage are more likely to maintain smaller cash holding but higher debt ratio so as to raise the position on the bargaining table. Such linkage is stronger for the financially-constrained firms. Moreover, firms offering higher DB-plan coverage are inclined to pay cash rather than equity in M&A. Finally, we test the stock price informativeness and crash risk to rule out the alternative explanation of information asymmetry.

Outside employment opportunities, employee productivity, and debt discipline

Jayant R. Kale[1], Harley E. Ryan[2], Lingling Wang[3]

[1]Northeastern University; [2]Georgia State University; [3]Tulane University, United States of America

Using a sample of over 99,000 firm year observations encompassing more than 13,800 firms from 1978 to 2007, we analyze how changes in labor

market conditions influence the disciplining effect of debt on employee productivity. We document that better (worse) outside employment opportunities weaken (strengthen) the disciplinary effect of debt on employee productivity. The influence of outside employment options on leverage-productivity relation is robust to various controls for endogeneity, including using instrumental variables, a quasi-natural experiment, both firm and industry-level analyses, alternative model specifications, and controls for employees' work conditions. Altogether, our findings highlight the importance of labor market conditions on the efficacy of corporate financial policies and our understanding of how these policies influence economic outcomes.

11:00am - 11:15am
Entrance Hall

Refreshments break

11:15am - 12:45pm
Nelson Mandela Lecture Theatre

SAT2-01: Institutions, incentives and organisations

Session Chair: **Michel Habib**, University of Zurich, Switzerland

Institutional development and business group affiliation value: Theory and evidence

Vijaya Bhaskar Marisetty[1], **Poonam Mehra**[2], **Narahari Hansoge**[3]
[1]RMIT University, Australia; [2]NITIE, India; [3]Indian Institute of Management, Trichy

Managerial incentives, risk aversion and corporate policy decisions

Helen Mary Roberts, **Scott McKnight**
University of Otago, New Zealand

Multifaceted transactions, incentives, and organizational form

Michel Habib
University of Zurich, Switzerland

11:15am - 12:45pm
Rhodes Trust Lecture Theatre

SAT2-02: Private equity and entrepreneurship

Session Chair: **Dawei Fang**, University of Gothenburg, Sweden

Financing and mode of entry in foreign markets

Neelam Jain
City University London, United Kingdom

We study the mode of entry decision of a multinational firm with and

without financing constraints on the local firm. We find that the

multinational's expected profits are a discontinuous function of its

belief about demand in one mode of entry. These discontinuities are

due to the endogeneity of reservation utilities as well as the interaction

between an agency problem and a game. Financing constraints lead to

an increase in the multinational's profits from joint venture, while

its profits from foreign direct investment decrease if the probability

of high demand is low but increase otherwise. Examples show that joint

venture arises for a larger set of beliefs when the local firm is

financially constrained. This effect is strengthened as technology

transfer increases, fixed cost of entry increases and as the multinational's

cost advantage decreases.

Capital formation and financial intermediation: The role of entrepreneur reputation

Spencer Martin, **Emma Li**
Univ of Melbourne, Australia

Recently a new type of institution has emerged, crowd funders. These entities: 1) channel capital to create intellectual property; 2) gather information on project and entrepreneur quality; and 3) gauge demand information directly from individuals to improve the efficiency of capital allocation. Data from crowd funder Kickstarter allow new insight on capital formation and the role of entrepreneurial reputation in the venture funding process. This source includes all cases where entrepreneurs try yet fail to raise funds, a feature heretofore unavailable to researchers. We find that both positive and negative reputation acquisition significantly change measures of capital raising success.

Dry powder and short fuses: Private equity funds in emerging markets

Dawei Fang
Department of Economics, University of Gothenburg

Private equity (PE) investors in emerging markets often prefer funds with a ``short fuse,'' i.e., a much shorter lifespan than their developed market counterparts. However, based on a simple agency model, we show that, unless managerial compensation is sufficiently concavified, the short fuse can exacerbate agency conflicts by encouraging the manager to burn money quickly. The money burning incentives produced by the short fuse can be countered by concavifying compensation or by lengthening the fuse. When PE funds target at projects with high profitability potential, concavifying compensation is unattractive to PE managers because it forces them to concede rents to investors. Thus, when the capital market is competitive, the equilibrium financing arrangement coincides with the long-fused convex compensation contracts used in developed markets. Thus, our model predicts that the growth in competition for PE funds in emerging markets will lead to the adoption of the long-lifespan PE contracts typical in developed PE markets.

11:15am - 12:45pm
Edmond Safra Lecture Theatre

SAT2-03: Corruption II

Session Chair: **Steven Xiao**, University of Texas at Dallas, United States of America

Shareholders' scrutiny and the relation between political contributions and firm performance

Antonios Siganos
University of Glasgow, United Kingdom

This study focuses how significant an effect shareholder scrutiny has on managers' political contributions. Unlike in the US, UK party funding regulations indicate that firms are more likely to make contributions to politicians for their benefit rather than due to agency, since managers need approval from their shareholders before contributing funds to political parties. We support our hypothesis by showing that listed firms that make political contributions outperform counterpart non-contributing firms. The outperformance is more prominent for contributions to the governing party, and for donations of a significant amount. We further explore the relation between political contributions and firm performance within unlisted firms. Unlisted firms have a relatively small number of shareholders and face little media coverage, and it is therefore less likely that shareholders would scrutinize managers to the same extent as in listed firms. Managers of unlisted firms are therefore expected to contribute to politicians in line with their political convictions. We empirically support this hypothesis.

What constitutes too-big-to-jail?

Hansoo Choi[1], **Hyoung-Goo Kang**[2], **Changmin Lee**[3]
[1]Korea Institute of Public Finance; [2]Hanyang University Business School, Korea, Republic of (South Korea); [3]Hanyang University Business School, Korea, Republic of (South Korea)

This paper investigates judicial size premium, the judicial bias in favor of large economic organizations. The Korean judiciary favors chaebols (large family business groups); convicted chaebol-related defendants receive 9.9%p more jail-sentence suspension and 19 month shorter jail term than

non-chaebol counterparts do. The leniency remains robust after controlling for the quality of defense attorneys and other sentencing factors. We hypothesize that this bias occurs because (1) the judiciary worries that strict sentences against chaebols may cause system risk; and (2) the court follows the civil law tradition of being generous to in-group transactions. The results support both hypotheses. The larger the chaebol, the larger is the judicial bias. Controlling for the in-group transactions explains much of the bias. With great victories in courts, chaebol-related offenders defend their wrongdoings, arguing that illegal in-group transactions are for the interest of entire business group, not for their private gain.

The culture of corruption and the value of corporate governance

Nishant Dass[1], Vikram Nanda[2], Steven Xiao[2]

[1]Georgia Institute of Technology, United States of America; [2]University of Texas at Dallas, United States of America

We present evidence on the relation between local corruption and firm value in the United States. We show that managers of firms that are located in more corrupt states are also likely to engage in more corrupt practices. This suggests that evidence of local corruption by public officials is indicative of a local ``culture of corruption''. Using difference-in-differences tests, we show that, after the passage of Foreign Corrupt Practices Act that curbed bribery by U.S. firms in foreign countries, firms headquartered in more corrupt states lost the most value (Tobin's Q). The culture of corruption is also associated with more agency problems. For instance, the passage of anti-takeover laws hurt firm performance in more corrupt states while the passage of Sarbanes-Oxley Act lowered discretionary accrual of earnings mainly by firms located in these states. Overall, our findings suggest that corruption hurts economic activity not only due to rent-seeking public officials but also on account of social norms and mores that are more accepting of corrupt activities.

11:15am - 12:45pm
Lecture Theatre 04

SAT2-04: Bond market and capital control

Session Chair: **Andrea Zaghini**, Bank of Italy, Italy

How firms borrow in international bond markets: Securities regulation and distribution of credit risks

Alberto Fuertes Mendoza, Jose Maria Serena Garralda

Bank of Spain, Spain

We investigate how emerging economies firms choose among the different international

bond markets: global, US144A, and Eurobond market. By exploiting the connection

between the market of issuance and regulatory disclosure of information, we show that

firms with poorer credit quality, less ability to absorb flotation costs, and more

informational asymmetries issue debt in those markets where information is less public.

On the contrary, firms issuing global bonds –subject to full SEC requirements- are

sounder and larger than those issuing debt under the less strict US 144A requirement, or

offshore Eurobond. This exercise also shows that after the global crisis firms are more

likely to tap less regulated debt markets. The results are supported by descriptive

evidence, univariate non-parametric analyses, and conditional and multinomial logit

analyses. To investigate the issue, we have constructed a novel data set containing

information on firms' debt securities issuances and their financial accounts for the

period 2000-2014. To account for firms' complex structures, we look at the financial

accounts of the guarantor of debt, which need not be the issuer company. The dataset

comprise 3,944 debt-securities, guaranteed by firms of 36 emerging economies, which

make up a total of 1.2 US trillion debt.

Capital control, fund flows and the exchange rates

Jianhua Gang[1], Ning Guo[2], Jiyuan Huang[3], Zongxin Qian[4]

[1]Renmin University of China, China, People's Republic of; [2]Citi Group, London; [3]Renmin University of China, China, People's Republic of; [4]Renmin University of China, China, People's Republic of

This article decomposes the excess returns of international capitals into three components: capital controls, stock market risk premium, and currency risk premium. We base our study on the VAR-MGARCH-DCC models and conclude that both the stock market risk premium and the currency risk premium directly affect capital flows, but, surprisingly, capital controls affect capital flows in an indirect way: capital controls first have significant influence on currency risk premium, and then currency risk premium alters capital flows. The dynamic conditional correlation of capital controls and currency risk premium is always significantly positive. Additional evidence concentrates on the capital control channel, which is how capital controls affect capital flows: time dummies about monetary policies or exchange rate floating range increasing have nearly no explanatory power. However, the differential of onshore official guide exchange rate and onshore market price can predict currency risk premium and policy changes. This phenomenon supports that capital controls affect foreign exchange markets through changes of currency risk premium, but not merely the amount of controlling. On the other hand, above empirical results also demonstrate that international capital flows into China mainly attracted by carry trades. To stabilize capital flows, the best strategy is not to constrain the capital flow volume or limit official guide exchange rate. Instead, it would be more effective to liberalize local interest rate market to eliminate carry trades.

A tale of fragmentation: The Euro-area corporate bond market

Andrea Zaghini

Bank of Italy, Italy

Corporations of different euro-area countries faced noticeably different costs of funding in the bond market during the prolonged period of financial instability which started in 2007. We identify the determinants of corporate bond yield spreads in order to isolate country-specific effects, as indicators of market fragmentation. Our evidence hints at a disorderly process of reassessment of corporate credit risk since 2007 with country-specific spreads vis-à-vis Germany becoming strongly positive for issuers located in other euro-area countries. After the introduction of the OMTs by the ECB, such spreads decline considerably but do not disappear.

11:15am - 12:45pm
Lecture Theatre 05

SAT2-05: Transparency, board and performance

Session Chair: **Sarmistha Pal**, University of Surrey, United Kingdom

Governance mandates, outside directors, and acquirer performance

Jay Dahya[1], Andrey Golubov[2], Dimitris Petmezas[3], Nickolaos G. Travlos[4]

[1]Baruch College, City University of New York; [2]Rotman School of Management, University of Toronto; [3]Surrey Business School, University of Surrey; [4]ALBA Graduate Business School, The American College of Greece

We use historical hand-collected board data around the issuance of two distinct government-led board structure mandates in the U.K. to establish the effect of outside directors on acquirer performance. Increases in outside director representation are associated with better acquirer returns in deals involving listed targets, but not when the target is private. These results are consistent with reputation concerns and information cost theories of board structure. While we do not advocate mandated board structures, our evidence suggests that the particular diktats we examine were associated with improved acquirer performance in public firm takeovers. We present corroborating evidence from the U.S. around a similar reform period.

Does internal board monitoring affect the debt maturity? A natural experiment

Onur Kemal Tosun[1], Lemma Senbet[2]

[1]University of Warwick, United Kingdom; [2]University of Maryland, USA

The managerial agency issue between manager and investors can be controlled by debtholders via short term debt as it provides an external control on managers via frequent renegotiation of the debt contract. Alternatively, increased board independence can mitigate the managerial agency problem by establishing a stronger and effective internal monitoring mechanism of managers. So, strong corporate governance can substitute the maturity structure of debt, or vice versa, in terms of managerial control. In this paper, we investigate the effect of internal board monitoring on firms' debt maturity structure. We exogenously identify internal monitoring via board independence and estimate its real impact on maturity using Sarbanes – Oxley Act of 2002 and the Securities and Exchange Commission regulations as exogenous shocks to board structure in a natural experiment

setting. Supporting the managerial agency theory, our findings indicate that firms have debt with longer maturity as board independence increases and internal monitoring becomes stronger. Our original results stay unchanged after implementing placebo tests and controlling for the CEO ownership, bond ratings and CEO duality. We also provide more insight into this relation by considering different aspects of debt issuance, organizational structure and as well as the times with financial crises. Our findings stay robust focusing only on the new debt issuance while the results are even stronger for conglomerate firms. We find the relation between internal monitoring and debt maturity becomes less clear during times of financial instability.

Does more transparency and disclosure necessarily enhance firm performance?

Suman Banerjee[1], Ronald Masulis[2], Sarmistha Pal[3]

[1]University of Wyoming, United States of America; [2]UNSW, Australia; [3]University of Surrey, United Kingdom

The present paper provides new evidence that the introduction of transparency and disclosure rules may not necessarily boost firm performance. Focusing on the introduction of the Transparency and Disclosure (T&D) reforms initiated in Russia in 2002, we use data on staggered implementation of the reform by two types of Russian firms over 2003-07: firms listed only in Russian domestic stock exchanges and firms that listed both in domestic and various foreign stock exchanges prior to the reform. We find new evidence that the reform negatively impacted operating performance (i.e., EBIT/Assets) of Russian only domestic-listed firms, whereas had some positive impact on their valuation (e.g., Tobin's Q). Weak tax enforcement in the pre-reform period made it possible for managers to inflate earnings, which was no longer possible after the T&D reform was implemented. Further analysis showed that state-controlled domestic Russian firms experienced a drop in EBIT and did not experience any improvement in market valuation in the post-reform era. In contrast, better governed Russian firms did not experience a drop in EBIT and they were the only ones to experience significantly higher market valuation in the post-reform era.

11:15am - 12:45pm
Seminar Room A

SAT2-06: Dividend policy

Session Chair: **María Gutiérrez Urtiaga**, Universidad Carlos III de Madrid, Spain

Does dividend tax impede competition for corporate charters?

Tat-kei Lai[1], Travis Ng[2]

[1]Copenhagen Business School, Denmark; [2]The Chinese University of Hong Kong, Hong Kong

Agency problems can be exacerbated by both dividend tax and takeover regulations. We show that if the reduction of both factors exhibits complementarity in reducing agency costs, then dividend tax impedes the jurisdictional competition among states for corporate charters. Facing weaker competition, states have lower incentives to produce good corporate laws, in turn weakening corporate governance among the corporations. Examining the differential responses across firms with a different number of anti-takeover provisions to the dividend tax cut under the 2003 Jobs and Growth Tax Relief Reconciliation Act, we find evidence in support of such a complementarity.

External financing from dividends: Evidence from Japanese business groups

Abhinav Goyal[1], Cal Muckley[2], Jun "QJ" Qian[3], Hassan Tehranian[4]

[1]University of Liverpool, United Kingdom; [2]University College Dublin; [3]Shanghai Advanced Institute of Finance, Shanghai Jiaotong University; [4]Boston College

With a large sample from Japan during the period of 1990-2012, we find firms that belong to business groups ('keiretsu') pay more cash dividends than firms not affiliated with any group. The difference between the two groups of firms is greater when the dividend-receiving firms have better investment opportunities, are in financial distress, or when the linkage between them and the dividend-paying firms is stronger. Using exogenous changes to taxes on corporate dividends and difference-in-difference and falsification tests, we further establish that keiretsu firms' dividend payouts have a causal impact on receiving firms' investment and debt policies. Our results highlight the importance of inter-firm financing, especially during periods of high external financing costs, even for firms in a developed economy.

Say-on-dividend

María Gutiérrez Urtiaga[1], María Isabel Saez Lacave[2]

[1]Universidad Carlos III de Madrid, Spain; [2]Universidad Autónoma de Madrid, Spain

Most listed firms have concentrated ownership structures. However this ownership type is problematic. A clinical analysis reveals that the corporate governance in these firms in terms of liability, voice and exit faces important design problems. Our analysis shows that the corporate governance of these firms is mainly aimed at checking the shareholders-manager agency problem leaving the controlling shareholder-minority agency problem unresolved.

Therefore it is crucial to provide growing companies with commitment tools that allow them to access capital markets and to raise funds from outside investors in better terms without having to give up the benefits of control.

This leads us to a proposal that could improve the protection of outside investors while maintaining the informational benefits of concentrated ownership structures: a "Say-on-Dividend" policy. This proposal is centered in empowering independent directors and activist and institutional investors in the design of dividend policy as informed intermediaries that can represent the voice of the outside investors in the control of the funds that they invest in the firm.

11:15am - 12:45pm
Andrew Cormack

SAT2-07: Behavioural finance

Session Chair: **Maurizio Montone**, Erasmus University Rotterdam, Netherlands, The

Optimistic disclosure tone and conservative debt policy

Ali Ataullah[1], Andrew Vivian[1], Bin Xu[2]

[1]Loughborough University, UK; [2]Queen's University Belfast, UK

We examine the relation between managerial overconfidence and debt conservatism (i.e. the low-leverage puzzle). Our analysis suggests that optimistic tone, our novel time-varying overconfidence measure, significantly decreases leverage. This evidence supports the proposition that overconfident managers who consider external financing as unduly costly use debt conservatively. This reduced reliance on external financing can be explained by our further evidence that optimistic tone significantly increases cash holdings and decreases dividend payment. The negative tone-leverage relation is stronger in the presence of high insider purchase of own stocks which confirms that optimistic tone reflects managerial overconfidence. This study suggests that managerial overconfidence can help explain the low-leverage puzzle.

Rational dividend addiction in banking

Benoit d'Udekem

Université Libre de Bruxelles, Solvay Brussels School of Economics and Management, Belgium

Banks cut dividends with great reluctance, as if addicted to them. Their apparent addiction is a major cause of concern for regulators because it could endanger the whole banking system. However, banks may be rational in maintaining elevated dividends if agency costs are high and dividends substitute for shareholder monitoring. Banks may rely on persistent dividend policies to uphold a reputation among investors, especially during crises, when issuing equity becomes likelier. In support of this hypothesis, we find that during and after the financial crisis, dividend persistence increases with the severity of agency costs to which banks are subject; it decreases in the presence of concentrated shareholders, except when stress is acute. By contrast, share repurchases also substitute for shareholder monitoring but trigger no addiction.

Investor sentiment and employment

Maurizio Montone[1], Remco Zwinkels[2]

[1]Erasmus University Rotterdam, Netherlands, The; [2]VU University Amsterdam

We find that investor sentiment should affect a firm's employment policy in a world with moral hazard and noise traders. Consistent with the model's predictions, we show that higher sentiment among US investors leads to higher employment growth in countries with greater financial development and industries that rely more on external finance. The effect is particularly strong in countries that attract more foreign direct investments from the US and that are perceived as more popular among US investors. We also find evidence that sentiment induces greater labor instability especially during financial crises, which sheds new light on the idea that financial development has a "dark side". Overall, the results support the view that sentiment has real effects.

12:45pm - 2:00pm
Entrance Hall

Buffet lunch

2:00pm - 3:30pm
Nelson Mandela Lecture Theatre

SAT3-01: Special Session on Governance and Acquisitions

Session Chair: **Sara B. Moeller**, University of Pittsburgh, United States of America

CEO traders and corporate acquisitions

Henry Leung, Jeffrey Tse, Joakim Westerholm

Sydney University, Australia

This paper investigates whether the personal trading decisions in all stocks CEOs trade are related to their corporate acquisition decisions. We find that the personal trading performance of CEOs is significantly and positively related to the short-term market reaction to their mergers and CEOs exhibiting greater turnover on their personal common equity portfolios undertake acquisitions more frequently. In particular, there is strong evidence that CEO risk aversion, measured by the information ratio, is a significant determinant of trading and acquisition frequency.

What determines the effectiveness of non-executive directors' monitoring? Evidence from UK M&As

Ziou Feng, Carol Padgett
University of Reading, United Kingdom

This study investigates the drivers of effective monitoring by non-executive directors, and also examines how the drivers are affected by the recent financial crisis. We find that effective monitoring by non-executives is mainly driven by stock ownerships, as shown by a positive relationship between stock ownerships and bidder's abnormal returns, while cash incentive is not effective. Independent board has no impact on bidder's abnormal returns, indicating that passive non-executives may be present in the board. We also find that the non-executive directors' monitoring effectiveness has no improvement after two years of the onset of financial crisis.

Globalization, country governance, and corporate investment decisions: An analysis of cross-border acquisitions

Sara B. Moeller[1], Jesse Ellis[2], Frederik P. Schlingemann[3], René M. Stulz[4]
[1]University of Pittsburgh, United States of America; [2]North Carolina State University, United States of America; [3]University of Pittsburgh, United States of America and Erasmus University, The Netherlands; [4]The Ohio State University, United States of America and National Bureau of Economic Research, United States of America

Using a sample of control cross-border acquisitions from 56 countries from 1990-2007, we find that acquirers from better governed countries gain more from such acquisitions and their gains are higher when targets are from worse governed countries. Other acquirer country characteristics, including the indices for laws protecting investors the earlier literature focuses on, are not consistently related to acquisition gains. However, globalization leaves a strong mark on acquisition returns. Acquisition returns are affected by global factors at least as much as they are by acquirer country factors. First, across all acquisitions, the acquirer's industry and the year of the acquisition explain more of the stock-price reaction than the country of the acquirer. Second, for acquisitions of private firms or subsidiaries, acquirers gain more when acquisition returns are high for acquirers from other countries. A country's governance and global mergers and acquisitions activity are important predictors of mergers and acquisitions activity in that country. Finally, we find strong evidence that at the firm-level better alignment of interests between insiders and minority shareholders is associated with greater acquirer returns and weaker evidence that this effect mitigates the adverse impact of poor country governance for the bidder.

2:00pm - 3:30pm
Rhodes Trust Lecture Theatre

SAT3-02: Private equity

Session Chair: **Sung Eun (Summer) Kim**, University of California, Irvine, United States of America

Do private equity funds benefit from their relationships with financial advisors in M&A transactions?

Stefan Morkoetter, Thomas Wetzer
University of St Gallen, Singapore

Are private equity backed initial public offerings any different? Timing, information asymmetry and post-IPO survival

Dimitra Michala
University of Luxembourg, Luxembourg School of Finance

Regulating private equity

Sung Eun {Summer} Kim
University of California, Irvine, United States of America

2:00pm - 3:30pm
Edmond Safra Lecture Theatre

SAT3-03: Financial constraints

Session Chair: **Klaas Mulier**, Ghent University, Belgium

Cash-flow sensitivities and financial constraints on credit ratings

Chih-Chung Chien[1], Shikuan Chen[2], Ming-Jen Chang[3]
[1]Department of Finance, Asia University, Taiwan, Republic of China; [2]Department of International Business, National Taiwan University, Taiwan, Republic of China; [3]Department of Economics, National Dong Hwa University, Taiwan, Republic of China

We investigate whether migration of firms' credit ratings imposes greater financial constraints on the cash-flow sensitivities of various uses of cash flow. We decompose cash flow into a transitory and a permanent component and focus on both the short-term and long-term financial constraint effect of credit ratings. We find that downgrades in credit ratings are significantly less favorable in terms of firms' willingness to allocate cash flow toward permanent investment and increase cash flow to transitory cash savings. Our findings inform the debate on whether downgrades in firms' credit ratings should accumulate liquidity as a buffer against future financial constraints.

Policy initiatives and firms' access to external finance: Evidence from a panel of emerging Asian economies

Udichibarna Bose, Ronald MacDonald, Serafeim Tsoukas
University of Glasgow, United Kingdom

This paper analyses the impact of policy initiatives co-ordinated by Asian national

governments on firms access to external finance, using a unique firm-level database

of eight Asian countries- Hong Kong SAR, Indonesia, Korea, Malaysia, Philippines,

Singapore, Taiwan and Thailand over the period of 1996-2012. Using a difference-

in-differences approach and controlling for firm-level and macroeconomic factors,

the results show a significant impact of policy on firms choice to external finance.

Firms increased their uptake of long-term debt, while decreased their short-term

debt. After splitting firms into constrained and unconstrained, using several criteria, the results document that unconstrained firms benefited significantly in obtaining external finance, compared to their constrained counterparts. Finally, we show that the increase in access to external finance after the policy initiative helped firms to raise their investment spending.

The real effects of credit constraints: Evidence from discouraged borrowers in the euro area

Klaas Mulier[1], Annalisa Ferrando[2]
[1]Ghent University, Belgium; [2]European Central Bank

This paper uses a new survey-based data set and a model with strong theoretical underpinnings to explain the characteristics and behaviour of discouraged borrowers in the euro area. The results show that more borrowers are discouraged when the average interest rate charged by banks in a country is higher. In line with the trade-off theory, higher effective tax rates lead to lower discouragement. We show that discouragement has strong negative effects on employment growth (-3.4\%), investment growth (-4.7\%) and asset growth (-2.9\%) due to the lack of access to bank finance in the two years following the discouragement. Furhtermore, we estimate that the majority of discouraged borrowers would be unable to get a loan if they would apply. Consistent with this low loan approval likelihood, discouraged borrowers tend to be relatively risky firms.

2:00pm - 3:30pm
Lecture Theatre 04

SAT3-04: Governance, information and manipulation

Session Chair: **Laurent Bach**, Stockholm School of Economics, Sweden

Corporate governance and cash flow manipulation: Evidence from India

Neerav Nagar[1], Mehul Raithatha[2]
[1]Indian Institute of Management Ahmedabad, India; [2]Indian Institute of Management Indore, India

In this paper, we examine whether the firm level corporate governance measures and regulatory reforms constrain cash flow manipulation. We focus on an emerging market, India where corporate governance and regulations are weak, and business groups and founding owners dominate the corporate landscape. We find that cash flow manipulation is likely to increase with an increase in the promoters' shareholding. Further, board

diligence and better audit fail to curb such manipulation. Our findings suggest that managers seem to move from earnings management towards cash flow manipulation. However, we do find that such manipulation has gone down in the recent years, and diligent boards constrain it, possibly due to the recent steps taken by the Indian Government for improving the corporate governance environment in India.

The board monitoring and Information disseminations in financially constrained firms

Sanjay Banerji[1], Meryem Duygun[2], Mohamed Shaban[3]
[1]University of Nottingham, UK; [2]University of Hull, UK; [3]University of Sheffield, UK

: In this paper we show how the interactions between incentives and asymmetric information force financially constrained firm to disseminate information so as to secure financing. Firms denied credit due to both lack of information about the probability of success and incentive concerns by the lenders. Hence, firms before IPO or other major financing could choose information structure of the precision of information content of disclosures. Our finding is that firms with very large or small internal wealth or equity may not spend resources on designing information structure but those in the intermediate wealth level may opt to do so. Also, passive boards without technical directors may not choose a transparent information system and firms with higher costs of effort may even engage in jamming signals leading to destruction of information.

The causal effect of dynastic control on performance

Laurent Bach
Stockholm School of Economics, Sweden

The conventional wisdom is that dynastic control provides sharp incentives to entrepreneurs ex-ante, when founders run firms in anticipation of their progeny being in charge once they retire, and bad management ex-post, when untalented heirs take over. Using data on Swedish private firms and the individuals who control them, I construct a cross-sectional measure of owners' dynastic intentions based on the presence in the board of young relatives of the current chairman, and provide instruments for dynastic control using the chairman's family characteristics. My estimations rule out any significant effect, positive or negative, of dynastic control on firm profitability.

2:00pm - 3:30pm
Lecture Theatre 05

SAT3-05: Financial crisis

Session Chair: **Madhu Kalimipalli**, Wilfrid Laurier University, Canada

Bad assets options and bank resolution in Europe: Lessons learned in and after the 2008 financial crisis

Karsten Paetzmann
BDO Germany and Frankfurt School of Finance & Management

For the new European Commission, implementation and enforcement of the Banking Union within the eurozone is currently a key priority. The 'new normal' in European financial markets includes the Single Resolution Mechanism, directly coordinating resolution plans and crisis management at significant banks. Present efforts are mainly directed towards minimum technical standards. However, the fundamental question of how to orderly unwind a bad assets portfolio without the usage of public funds remains partly addressed only. While a uniform approach to any bad asset does not seem to be applicable, certain lessons learned from previous financial crises may contribute to a selection of reduction strategies. This paper draws upon experience from portfolio reduction strategies applied at European bad banks in the aftermath of the 2008 financial crisis.

Financial shock crosses the sea: Influence of US financial crisis on Asian firms' financial behavior

Masayo Shikimi, Kazuo Yamada
Nagasaki University, Japan

This paper examines the influence of the 2008 financial crisis in the US on the cash holding behavior of Asian companies. We use the Osiris dataset and divide the sample into two: firms that sell products in the US and those who do not. We investigate the financing behavior among these subgroups and find the following results. First, firms with US ties and exports to the US before the crisis suffered higher financial constraint. Next we investigate the source of the cash. The findings reveal that firms with US ties failed to use outside financing, issuing equity, or debt, but reduce the investment for making additional cash.

Private or public debt? Effect of crisis on financial intermediation

Madhu Kalimipalli[1], Alan Huang[2], Subhankar Nayak[1], Latha Ramchand[3]
[1]Wilfrid Laurier University, Canada; [2]University of Waterloo; [3]University of Houston

How did the crisis impact financial intermediation? We address this question by studying a unique market segment, viz. foreign debt issued in the U.S, which grew in size despite the financial crisis and hence affords an interesting case for the study of intermediation during the crisis. Using an exhaustive sample of bond issuances for 29,915 (6,110) Yankee (144A) bond issues by 1,355 (1,531) issuers from 66 (84) different countries between 1990 and 2013, we examine the debt choice, pricing and market timing between public (Yankee) and private (Rule 144A) debt issues for foreign firms. To the extent that foreign firms heavily rely on 144A debt as a funding option, our study overall sheds light on the role of Qualified Institutional buyers (QIBs) in providing intermediation in the 144A market and especially during the crisis.

2:00pm - 3:30pm
Seminar Room A

SAT3-06: Pollitical influence

Session Chair: **David Feldman**, UNSW, Australia

Republican managers & innovation

Bader Alhashel, Mohammad Almarzouq
Kuwait University, Kuwait

We examine how managers' political orientations and ideologies affect a major corporate policy decision, innovative production . We conjecture that Republican managers are likely to carry conservative personal philosophies which will spillover over to their corporate decision making. Using the personal political contributions of managers and the September/11 Attacks as an exogenous shock to conservatism, we find that over the 1992-2006 period firms with Republican CEOs and managers produced less innovation as measured by the number of patents produced and the number of citations received

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Firm performance, political influence and external shocks

Laura Solanko[1], Vladimir Sokolov[2]
[1]BOFIT, Bank of Finland; [2]Higher School of Economics, Moscow

Using representative survey data on manufacturing firms and the official registry data, we study how firms' political influence at the regional level affect firms' financial performance. We find that firms with political influence exhibit higher profitability but also retain larger cash holdings. We also find that politically influential firms are not more likely to take bank credit, but where they do so, they tend to enjoy longer maturities. Furthermore, after conditioning on the level of the regional institutional development we find that the significant impact of the firms' regional political influence is present only in regions with poor institutions and is almost absent in the regions with high level of democracy/market freedom. Most importantly, we are able to show that firms that were influential during the survey had a larger probability to be liquidated after the 2008 economic crisis. These findings suggest that having regional political influence may turn out to be detrimental when faced with a sudden, exogenous shock.

Politically motivated corporate decisions: Evidence from China

David Feldman, Jiaming Li, Konark Saxena
UNSW, Australia

Two conflicting hypotheses assess the effect of political tournaments on corporate decisions: i.uncertainty regarding outcomes reduces economic activity, and ii. agency driven incentives inc rease economic activity. Further assertions suggest that under democratic elections the former hypothesis prevails and under autocratic promotions the latter does. Indeed, Julio and Yook (2012) found that democratic elections are associated with reductions in corporate investments. In this paper we investigate the effect of promotions to the Chinese National Congress on Chinese corporate decisions. 31 mainland China province heads compete every five years for promotions to the national congress by demonstrating high economic performance. We study 17,534 firm year observations from 2000-2013. Controlling for economic conditions, we find that average investment rates are 6% higher two years before national promotions. We further examine promotions effects on tax revenues and find that firms, on average, pay 4.1% more taxes in the year leading up to national promotions. We use the 2-stage least squares methodology to address the concern that investment and tax decisions are codetermined. We also study additional firm aspects including employment, wages, cash holdings, debt, stock returns, and stock volatility in order to learn how these variables are affected simultaneously. We find that firms tend to raise debt to fund the extra investments and that the market reacts negatively to that as these investments serve politicians at the costs of shareholders. We also identify temporary growth in employment and wage before national promotions. Further, we show that China's national promotions do not tend to raise political uncertainty. Finally, studying firms dual-listed in the mainland and Hong Kong, we show that price discrepancy increases around national promotions and conjecture that it is due to politically motivated interference.

2:00pm - 3:30pm
Andrew Cormack

SAT3-07: Credit rating, bonds and securitization

Session Chair: **Hamdi Driss**, Saint Mary's University, Canada

How do firms decide where to issue? Lessons from corporate onshore and offshore bond finance in Asian emerging markets

Paul Mizen[1], Eli Remolona[2], Frank Packer[2], Serafeim Tsoukas[3]
[1]University of Nottingham; [2]Bank for International Settlements; [3]University of Glasgow, United Kingdom

Corporate bond issuers in emerging economies in Asia have often had a choice
between an onshore market and an offshore one. Many issued offshore, but
issuers increasingly turned to the onshore market. To what extent was this
due to the development of the onshore market? How much depends on the global
search for yield or more open capital markets? This paper investigates
systematically what factors have influenced this choice between markets for
issuers in seven emerging economies -- Hong Kong, Indonesia, Korea,
Malaysia, Philippines, Singapore and Thailand. For variables measuring
market depth and liquidity, the availability of hedging instruments, and the
size of the investor base, we rely on BIS statistics that have not been used
in this literature before. We combine these market-level data with
firm-level data in an unbalanced panel for the seven countries covering the
period 1995 to 2012. We control for variables representing agency, static
trade-off and risk management theories of the capital structure. Our results
show that the choice between onshore and offshore markets has changed over
time in large part because of the increased depth of the onshore market. The
effect is stronger in economies with more open capital accounts. The firms
that benefit from such market development tend to be the unseasoned issuers
rather than the seasoned ones.

Determinants of primary market spread of securitization: A panel data study

Mohammed Hariri Bakri
Universiti Teknikal Malaysia Melaka, Malaysia

Malaysian firms have been reported involve in Asset Back Securities since 1986s where Cagamas is a pioneer. This research aims to examine the factor influencing primary market spread. Least square method and regression analysis are applied for the study period 2004-2012. The result shows two determinants in internal regression model influence or contribute to the primary market spread and are statistically significant in developing the securitization in Malaysia. It can be concluded that leverage and liquidity significantly contribute to the determinant primary market spread in internal regression model and interest and inflation significant in external regression model. From four hypotheses, three hypotheses support that the determinants have a relationship with primary market spread.

Are credit rating agencies still relevant? Evidence on certification from Moody's credit watches

Hamdi Driss[1], Nadia Massoud[2], Gordon Roberts[3]
[1]Saint Mary's University, Canada; [2]Melbourne University, Australia; [3]York University, Canada

Using firms with Moody's issuer-level, watch-preceded rating downgrades between 1992 and 2011 as a benchmark, we document that firms with watch-preceded rating confirmations (firms for which original ratings are confirmed after a credit watch warning) experience an increase in long-term financing, investment, and profitability following the credit watch period. Financially constrained firms with confirmed ratings substantially increase their long-term financing after the watch period, indicating that rating agencies can help alleviate firm capital constraints. These findings suggest that rating agencies have real effects on firm behavior, and that a credit watch with direction downgrade is an effective certification mechanism.

3:30pm - 3:45pm **Refreshments break**
Entrance Hall

3:45pm - 5:15pm
Nelson Mandela Lecture Theatre

SAT4-01: Capital structure and collateral

Session Chair: **Gabor Pinter**, Bank of England, United Kingdom

Trade-off theory vs. the pecking order hypothesis: Evidence from Japan

Konstantinos Voutsinas, Richard Werner
University of Southampton, United Kingdom

This paper investigates the explanatory power of the two predominant theories in the area of capital structure, the trade-off theory and the pecking order hypothesis, in accounting for financial policy decisions of Japanese corporations. This is achieved through the use of a "horse race" test similar to the one utilized in the seminal papers of Shyam-Sunder and Myers (1999) and Frank and Goyal (2004). This is the first paper to take into consideration the effect of monetary conditions and financial constraints on the performance of these two theories. The data set used includes 1528 public and 2143 companies and covers the turbulent period of 1980-2007, thus using 60,037 data points. Our findings show that economic conditions affect the performance of the two models. The pecking order hypothesis works best during the high growth period of the 1980s while the trade-off theory is the best performer during the stagnant growth period of the 1990s and the subsequent credit crunch. Our results also show that the trade-off theory works best for companies with low levels of leverage while the pecking order hypothesis performs best for private companies and companies with high levels of leverage.

Capital structure and financial flexibility: Expectations of future shocks

Costas Lambrinoudakis[2], Michael Neumann[3], George Skiadopoulos[1,2]
[1]Queen Mary University of London, United Kingdom; [2]University of Piraeus, Greece; [3]Dimensional Fund Advisors

We test one of the main predictions of the financial flexibility paradigm that expectations about future firm-specific shocks affect the firm's leverage. We extract the expectations of small and large future shocks from the market prices of equity options. We find that expectations for future shocks decrease leverage and are statistically significant even when we control for traditional determinants and endogeneity. Moreover, they have a first-order effect to capital structure decisions affecting more the small and financially constrained firms. Our findings confirm De Angelo et al. (2011) model predictions and evidence drawn from surveys that managers seek for financial flexibility.

Collateral channels

Gabor Pinter, Saleem Bahaj, Angus Foulis
Bank of England, United Kingdom

Does an increase in land prices directly expand corporate investment and job creation by allowing businesses to borrow more against their collateralisable real estate, or does it indirectly expand corporate activity by allowing company directors to take on more mortgages that they subsequently reinvest into their businesses? Our unique combination of datasets including firm-level accounting data matched with transaction-level mortgage data allows us to identify whether the collateral channel propagates land price shocks into corporate activity directly via corporate borrowing or indirectly via household borrowing.Thus we are able to provide a more detailed analysis of the important links between real estate markets, household indebtedness, corporate indebtedness and the wider economic activity.

3:45pm - 5:15pm
Rhodes Trust Lecture Theatre

SAT4-02: CEO behaviour

Session Chair: **Jayant Kale**, Northeastern University DAmore-McKim School of Business, United States of America

Knighthoods, damehoods, and CEO behaviour

Konrad Raff[1], **Linus Siming**[2]

[1]Norwegian School of Economics; [2]Bocconi University

We study whether and how politicians can influence the behaviour of CEOs and firm performance with prestigious government awards. We present a simple model to develop the hypothesis that government awards have a negative effect on firm performance. The empirical analysis uses two legal reforms in New Zealand for identification: Knighthoods and damehoods were abolished in April 2000 but reinstated in March 2009. The findings are consistent with the predictions of the model. The results suggest that government awards serve as an incentive tool through which politicians influence firms in favour of employees to the detriment of shareholders.

CEO overconfidence or stock mispricing and growth? Reexamining the effect of CEO option exercise behavior on corporate investment

Jie Cao

Chinese University of Hong Kong, Hong Kong S.A.R. (China)

Malmendier and Tate (2005) use CEO late option exercise to proxy for unobservable CEO

overcondence and argue that managerial overcondence can account for investment distor-

tions. By breaking the market-to-book ratio into rm mispricing, industry mispricing, and

growth opportunities, we nd that industry mispricing and growth opportunities inuence

both CEO option exercise and corporate investment. When rms are overvalued or have

better growth opportunities, CEOs are more likely to postpone their option exercise and at

the same time invest more using internal cash. Moreover, CEO late option exercise fails to

explain investment decisions after controlling for mispricing and growth opportunities.

Product market linkages and managerial risk taking

Jayant Kale[1], **Simi Kedia**[2], **Ryan Williams**[3]

[1]Northeastern University, United States of America; [2]Rutgers Business school, United States of America; [3]University of Arizona, United States of America

A firm's customers and suppliers make relationship-specific investments (RSI) whose value reduces if the firm undertakes risky investments. We hypothesize that the risk-taking incentives in the firm CEO's compensation will lower the RSI by firms up and down in the vertical channel. We provide significant evidence that customer/supplier RSI declines with the risk-taking incentives of the firm's CEO. Moreover, we find that RSI is more sensitive to the CEO's risk-taking incentives when they are more likely to increase the firm's cash flow volatility. Our findings are robust to correcting for endogeneity and several measures for RSI and risk taking.

3:45pm - 5:15pm
Edmond Safra Lecture Theatre

SAT4-03: Governance and performance

Session Chair: **Peter Szilagyi**, Central European University, Hungary

The impact of corporate governance mandates on firm-level foreign exchange exposure

Ulrich Hege[1], **Elaine Hutson**[2], **Elaine Laing**[3]

[1]HEC Paris, France.; [2]Monash University, Melbourne, Australia.; [3]Trinity College Dublin, Ireland

We examine whether firms' management of foreign exchange risks improved as a result of the enhanced monitoring provisions in the Sarbanes-Oxley mandates and related stock exchange listing rules. Using a sample of 533 US non-financial firms over the period 2002 to 2007, we show that firms with lower levels of adherence had higher foreign exchange exposure. This reversed post-SOX: as the firms improved their level of compliance, their exposure fell. We find that this risk-reduction effect is much stronger for small firms. We also find that greater board independence is associated with lower post-SOX exposure. Our findings contribute to the debate on the benefits and costs of SOX; the improved management of foreign exchange risks is a previously unrecognised benefit of the mandates.

Do friendly boards have an influence on corporate financing policy ? Evidence from French listed firms

Cedric Van Appelghem[1], **Aurélie Sannajust**[2], **Samir Trabelsi**[3]

[1]Université Paris 2 Panthéon-Assas, France; [2]Université Jean Monnet Saint-Etienne (COACTIS), France; [3]Brock University, Canada

Our work shows that board friendliness toward the Chief Executive Officer (CEO) increases leverage. This is consistent with Resource Dependence Theory which conceives the board as a strategic interface between the firm and its environment. Complementary tests show that this relation depends on ownership concentration. Firms with higher ownership concentration face an increase in leverage, while firms with lower ownership concentration face a decrease in leverage. Taken together, our results suggest that it is necessary for researchers to have a contingent vision of the effects of board composition on corporate governance.

Shareholder rights and engagement at European general meetings

Luc Renneboog[1], **Peter Szilagyi**[2,3]

[1]Tilburg University, Netherlands; [2]University of Cambridge, UK; [3]Central European University, Hungary

This paper examines shareholder voice at company general meetings in Europe. Using management and shareholder proposals submitted in 17 countries, we investigate whether dissent against management is affected by meeting, proposal and firm characteristics, as well as the various regulatory provisions that have been argued to affect meeting access and participation. We find that while shareholder engagement at European meetings remains limited, it tends to be well-placed. Shareholders are most likely to act on anti-takeover devices and executive compensation, and submit their own proposals against large and poorly performing firms. Critically, national regulation plays a major role in galvanizing shareholders, lending strong support to the European Commission's Shareholder Rights Directive, and the broader pro-shareholder regulatory trend that has emerged post-crisis worldwide. We find that shareholders use their voice more at the firm level when concerned about the institutional environment at the country level, and the quality of minority investor protection in particular. We conclude that shareholder engagement at company general meetings is a part of good governance, and regulators should go beyond minimum standards pro-actively to support shareholder rights.

3:45pm - 5:15pm
Lecture Theatre 04

SAT4-04: Informal origin, political connections and performance

Session Chair: **Georgios Panos**, University of Glasgow, United Kingdom

Optimal security design under asymmetric information and profit manipulation

Kostas Koufopoulos[1], **Roman Kozhan**[2], **Giulio Trigilia**[3]

[1]University of Pireaus, greece; [2]University of Warwick, United Kingdom; [3]University of Warwick, United Kingdom

We consider a model of external financing in which entrepreneurs are privately informed about the quality of their projects and seek funds from competitive financiers. The literature restricts attention to monotonic or `manipulation proof' securities and finds that straight debt is the uniquely optimal contract. Monotonicity is commonly justified arguing that it would arise endogenously if the entrepreneur can manipulate profits before contract's maturity.

We characterize the optimal contract when entrepreneurs can misreport their earnings. Straight debt is often suboptimal and never uniquely optimal. The optimal contract is non-monotonic and involves profit manipulation in equilibrium. It can be implemented as debt with a strictly positive performance-based bonus.

Political connections and financial stability

Kentaro Asai

The University of Chicago, United States of America

This paper documents multiple channels through which lobbying activities of US large financial institutions affect their risk profiles utilizing the data from 2003 to 2014. I find that observed risk profiles are negatively associated with lobbying activities after 2008. Moreover, an event study around announcements of major bailout plans in 2008 reveals that politically connected firms experienced larger drops in their credit risks after the announcements of bailouts. In order to verify whether sharp drops in credit risks are associated with changes in firm fundamentals or creditors' beliefs about default risks, I develop the quantitative model of a firm's risk-taking subject to a run that predicts the set of rationalizable risk profiles at firm level. The calibrated model implies that lobbying activities affect firm primitives to induce the potential for high default risk and asset volatility to occur. This is rather consistent with the prevalent view that lobbying activities weaken the impact of regulatory function to prevent financial institutions from taking risk excessively. However, I also provide evidence that lobbying activities bolster the impact of regulatory function to calm down creditors'

beliefs about default risks. This paper provides evidence that lobbying activities can be legislative and administrative subsidies for financial policies.

Informal origin, performance and conduct: Firm-level evidence from the Balkans

Georgios Panos[1], **Leora Klapper**[2], **Ourania Dimitraki**[3]

[1]University of Glasgow, United Kingdom; [2]The World Bank; [3]University of London, United Kingdom

In the last two decades, the Balkan counties have been a laboratory of business environment and financial sector reform in the post-communist and the post-conflict transition processes. The main aim was to support formal business operation and performance, as well as to prevent the old norms of informal business conduct. Using data from more than 5,000 firms in eight Balkan countries we examine three hypotheses related to the performance and behaviour/conduct of firms that stemmed from the informal sector. Our results indicate that firms of informal origin perform better in terms of sales and employment growth, as well as exporting activity. Moreover, we find a moderate positive relationship between access to finance among informal firms and their performance, which becomes stronger for young firms of informal origin. We interpret this as in accordance with a competitive view of informality in the Balkans. Finally, we test whether informal forms of conduct persist among formerly informal firms. Our results strongly reject this hypothesis.

3:45pm - 5:15pm
Lecture Theatre 05

SAT4-05: Law and finance

Session Chair: **Jane Frecknall-Hughes**, Hull University Business School, United Kingdom

Regulatory competition and the market for corporate law

Ofer Eldar[1], **Lorenzo Magnolfi**[2]

[1]Yale School of Management, United States of America; [2]Yale University

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Do private family firms rely on internal finance to grow? Evidence from different legal origins

Ignacio Requejo

Universidad de Salamanca, Spain

Finance and legal form: Their roles in models of internationalisation

Jane Frecknall-Hughes[1], **Peter Buckley**[2]

[1]Hull University Business School, United Kingdom; [2]Leeds University Business School

3:45pm - 5:15pm
Seminar Room A

SAT4-06: Culture, relationship and ownership structure

Session Chair: **Masayo Shikimi**, Nagasaki University, Japan

Pyramidal group structure and bank risk in Thailand

Yupana Wiwattanakantang[1], **Pramuan Bunkanwanicha**[2], **Jyoti Gupta**[2]

[1]NUS Business School, Singapore; [2]ESCP Europe, France

Is culture converging the banking industry? A cross-country analysis

Mohamed Azzim Gulamhussen[1], **Carlos Manuel Pinheiro**[2], **João Teodósio**[3]

[1]ISCTE Business School, Instituto Universitário de Lisboa; [2]Caixa Geral de Depósitos, Portugal; [3]Instituto Politécnico de Santarém

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The Structure of Corporate Holdings and Corporate Governance: Evidence from India

Swarnodeep Homroy[1], **Shantanu Banerjee**[2]

[1]Lancaster University, United Kingdom; [2]Lancaster University, United Kingdom

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Bank relationships and cash holdings: Evidence from Japanese firms

Masayo Shikimi

Nagasaki University, Japan

3:45pm - 5:15pm
Andrew Cormack

SAT4-07: Governance and M&As

Session Chair: **Paul Alexander Borochin**, University of Connecticut, United States of America

The impact of changes in Japanese tender offer regulations on gains to shareholders and on the operating performance of a target

Kazunori Suzuki[1], **Timothy A. Kruse**[2]

[1]Waseda University, Japan; [2]Xavier University, USA

The Japanese market for corporate control has undergone remarkable growth following the 1990 introduction of mandatory bid rules (MBR) regulating tender offers. Initial MBR regulation allowed more freedom to a bidder to conduct a partial tender offer without squeeze-out. There were two important revisions to the MBR. Share based squeeze-out rules were introduced in 1999. Then, in 2006, amendments increased the protection of targets' minority shareholders, limiting the ability of acquirers to offer squeeze-outs at a smaller control premium (sometimes at a price below the market). We examine 622 tender offers between 1991 and 2011. Over time, there have been fewer offers without squeeze-out and/or discounted offers that expropriate minority shareholders. However, significant increases in bid premiums materialized only after the 2006 regulatory changes. There are 262 tender offers without squeeze-out, where a target firm kept listed on the stock exchange after the completion of a tender offer. The merit of having a large sample of listed target is that we are able to trace the operating performance and share price of the target long after the completion of a tender offer. Japan's experience will serve to deepen the understanding of the regulators in European countries and in emerging markets that adopt MBR.

The role of corporate governance for acquisitions by the emerging market multinationals: Evidence from India

Burcin Col[1], **Kaustav Sen**[2]

[1]Pace University, United States of America; [2]Pace University, United States of America

Acquisitions by emerging market firms of targets located in developed markets have increased drastically over the recent years. Using firm-level data spanning 2001-2010, we find that firm-level corporate governance of Indian firms improve after acquiring developed-market (DM) targets relative to domestic targets. Additionally, we find that the improvement in firm-level governance is higher when the developed market target countries have better investor protection. We also find that these firms exhibit higher valuation after the acquisition.

Alternative corporate governance: Domestic media coverage of mergers and acquisitions in China

Paul Alexander Borochin[1], **Weihua Cu**[2]

[1]University of Connecticut, United States of America; [2]University of Xiangtan, China

A text analysis of domestic Chinese newspaper articles on 797 proposed mergers shows that media in developing countries are quantifiably susceptible to pressure: media coverage is more favorable for deals consistent with government objectives and involving powerful local firms. However, we also find that media tone can affect the outcome of proposed M&A deals by informing the market. We identify this effect using the exogenous shock to market-driven governance from the Split-Share Structure Reform in 2007. Negative tone during negotiation coverage also predicts long-term performance for the bidder. Despite biased coverage, domestic media in developing countries can function as an alternative channel for corporate governance.

7:00pm - 9:30pm
Lady Margaret Hall

Gala Dinner at Lady Margaret Hall

Date: Sunday, 13/Sep/2015

8:00am - 9:30am
Nelson Mandela Lecture Theatre

SUN1-01: International IPOs

Session Chair: **Marc Goergen**, Cardiff University, United Kingdom

Does institutional participation enhance IPO performance? Evidence from the Indian capital market

Chinmoy Ghosh[1], **Arnab Bhattacharya**[2], **B B Chakrabarti**[3], **Milena Petrova**[4]

[1]University of Connecticut, United States of America; [2]IIM Indore, India; [3]IIM Calcutta, India; [4]Syracuse University, USA

In 2009, the Securities Exchange Board of India (SEBI) brought in a regulation that allowed reputable, institutional investors to anchor an IPO by pre-committing to invest in the issue at a publicly disclosed bid quote, in advance of the IPO opening. In our paper, we examine the certification effect of such anchor investor participation on a sample of 113 Indian IPOs which were listed during 2009 and 2012. We find that anchor investors are able to attract greater participation from other institutional investors, but fail to raise the retail investor demand for an IPO. We also find that the anchor IPOs have significantly lower aftermarket volatility and liquidity than non-anchor IPOs. The anchor IPOs also outperform non-anchor IPOs in the long run, although they do not differ significantly in underpricing. Overall, our evidence is consistent with certification role of anchor investor participation in IPOs, and suggests that anchor investors can significantly reduce the ex-ante information uncertainty around an IPO offering.

Going public abroad

Cecilia Caglio[1], Kathleen Weiss Hanley[2], Jennifer Marietta-Westberg[3]

[1]Federal Reserve Board of Govenors; [2]Lehigh University, United States of America; [3]Securities and Exchange Commission

This paper examines the decision to go public abroad using a sample of 21,809 IPOs. Although only 6% of initial public offerings are offered abroad, these represent approximately 13% of total IPO proceeds. We show that the decision to do an IPO outside the home country is affected not only by the home country's market characteristics but also the extent to which it is financially integrated with the world economy. In addition, we provide evidence that the decisions of whether to go public abroad and where to list as well as the amount of proceeds raised are determined by the presence of global underwriters. We find that alleviating informational frictions is an important determinant of the decision to go public abroad. Finally, we show that the decision to list in the US differs from that of other major financial markets.

Foreign business activities, foreignness of the VC syndicate, and IPO performance

Salim Chahine[1], Samer Saade[1], Marc Goergen[2]

[1]American University of Beirut, Lebanon; [2]Cardiff University, United Kingdom

This paper examines the role played by foreign venture capital firms (VCs) in affecting the IPO premium of US IPO firms. We find that US VC-backed IPOs benefit from the foreignness of the VC syndicate (via the presence and distance of foreign VCs), which generates ample growth potential for investee firms, which in turn translates into a higher IPO premium. More precisely, we find evidence of a non-linear relationship between foreign VCs and the IPO premium; the latter first increases with the foreignness of the VC syndicate, and then decreases. While the initially positive effect of foreign VCs lends support to the resource-based and institutional theories, the subsequently negative effect suggests that greater presence and distance reduce the VC syndicate's effectiveness in properly monitoring the IPO firm. Our findings also indicate that foreign VCs foster the foreign business activities of US IPO firms, and that after controlling for the endogenous determination of foreign business activities, greater foreign VC presence and distance combined with the IPO firm's foreign business activities increase the IPO premium.

8:00am - 9:30am
Rhodes Trust Lecture Theatre

SUN1-02: Executive compensation

Session Chair: **Azzim Gulamhussen**, Vlerick Business School, Belgium

Executive retention and accelerated option vesting

Torsten Jochem[1], Tomislav Ladika[1], Zacharias Sautner[2]

[1]University of Amsterdam; [2]Frankfurt School of Finance & Management

We show that deferred equity pay generates retention incentives by documenting a sharp rise in executive turnover after the sudden elimination of vesting periods. Our analysis exploits a unique regulatory change (FAS 123-R) that prompted 767 firms to accelerate stock option vesting. Option acceleration allowed executives to retain more equity when departing the firm, and we find that CEO turnover rose 70% in response. We identify the causal effect of option acceleration by exploiting FAS 123-R's almost-random timing, which was staggered by firms' fiscal year ends. Executive departures after acceleration led to negative stock price reactions, and firms that experienced departures responded by increasing the pay of their remaining executives.

Executive compensation and political sensitivity: Evidence from government contractors

Brandy Hadley

California State University, San Bernardino, United States of America

Using federal contractor data, this paper examines the political costs hypothesis through the impact of government scrutiny and political sensitivity on executive compensation. The political cost hypothesis proffers that firms subject to government scrutiny take actions to deflect potential negative government reactions which can result in increased political costs for the firm. Results suggest that government contractor firms with the most political sensitivity (i.e., firms with government contracts that are most visible and comprise significant portions of their revenue) pay lower total (and excess) compensation to their CEOs, but with larger portions of cash, leading to lower long-term CEO wealth performance sensitivity. However, politically sensitive contractors with significant bargaining power (due to concentration, competition, or political contributions), are actually paid greater excess compensation than other politically sensitive firms. These findings provide insight into the effects and limitations of additional government monitoring of executive compensation.

Compensation of nonexecutive directors in financial firms prior to the onset of the financial crisis

Jose Filipe Abreu[1], Mohamed Azzim Gulamhussen[2]

[1]European Central Bank, Germany; [2]Vlerick Business School

Compensation of bank managers has been in the public eye since the inception of the 2007-9 financial crises. Misalignment of incentives has been at the heart of public debates on the issue. In the aftermath of the financial crisis, regulators rushed to develop rules that impose limitations on compensation and academics sought to find explanations and derive policy implications. We contribute to this debate and literature by studying compensation of nonexecutive directors in a sample of U.S. publicly listed banks from 2000-9. Nonexecutive directors are expected to act on behalf principals to monitor agents. Our findings indicate a steady increase in the compensation of nonexecutives in financial firms and a significant role on firms' market value. The use of incentive-based compensation (both cash bonus and equity) for nonexecutive directors seems to be negatively related to market value whereas the experience of nonexecutive directors is positively related to the market value. We hypothesise that the impact of nonexecutive directors' characteristics on firms market value is channelled through the compensation of executive directors. Our findings have regulatory and academic implications.

8:00am - 9:30am
Edmond Safra Lecture Theatre

SUN1-03: Leverage puzzle

Session Chair: **Sadok El Ghoul**, University of Alberta, Canada

The impact of internationalisation on zero leverage: Evidence from the UK

Eleni Chatzivgeri, Panagiotis Dontis-Charitos, Sheeja Sivaprasad

University of Westminster, United Kingdom

There is an ongoing debate in the capital structure literature as to the direction of the effects of internationalisation on firm debt. Despite the increasing attention on the role of internationalization in firms' capital structure decisions, and the increasing adoption of zero leverage policies by multinationals, no study attempts to explain the effect of multi-nationality on the zero leverage decision. This study explores the relationship between the level of internationalization and zero leverage using a large panel of UK companies, while controlling for various company-related factors. We find strong evidence that multi-nationality affects the propensity of firms to have zero leverage and that this decision is affected by industry specificities.

The leverage, pricing and return puzzle in leveraged buyouts: The impact of competition

Nicholas Geoffrey Crain[1], Reiner Braun[2], Anna Gerl[2]

[1]Vanderbilt University, United States of America; [2]Technische Universität München, Germany

We investigate how the competition for buyout targets between private equity funds

drives the relationship between deal leverage and performance. For targets acquired through

investment bank auctions, a higher level of debt measured with respect to fundamentals (Debt / EBITDA) is associated with a higher purchase price and lower returns. This is consistent with the view that improving credit market conditions decrease the relative advantages between private equity fund managers and, thus, the sellers of the target firm ultimately benefit from easy credit. Our results are distinct from changes in deal prices driven by private equity fundraising and the results are robust to alternative proxies for the competitiveness of deals. Finally, we show that the choice to pursue auction deals in particularly loose credit markets, when expected returns are low, is positively related to proxies for agency conflicts between fund managers and fund investors.

Zero-leverage puzzle: An international comparison

Sadok El Ghoul[1], Omrane Guedhami[2], Chuck Kwok[2], Xiaolan Zheng[3]

[1]University of Alberta, Canada; [2]University of South Carolina; [3]University of Nottingham Ningbo, China

Using a large sample of firms from developed and developing countries over the 1990 to 2010 period, we document evidence of zero-leverage firms

around the world. Further, we find strong and robust evidence that in countries with high scores on Schwartz's Conservatism and Mastery indices as well as high levels of trust, firms are more likely to employ a zero-leverage policy, after controlling for various firm- and country-level determinants of leverage. Finally, we find that firms with zero leverage have a lower cost of equity capital in countries where a zero-leverage policy is more compatible with the local culture.

8:00am - 9:30am
Lecture Theatre 04

SUN1-04: Board diversity,agency and investors connectedness

Session Chair: **Hisham Farag**, University of Birmingham, United Kingdom

Institutional investors connectedness and firm value

Emanuele Bajo[1], Nicoletta Marinelli[2]
[1]University of Bologna, Italy; [2]University of Macerata, Italy

This paper investigates the role of the institutional blockholder's connectedness, as measured by the number of co-ownership ties, over the firm value. We gauge the connectedness of institutional investor recurring to the centrality measures employed in the social network analysis. Using thirty thousand firm-year observations from the US market, we find that block-holdings from more central institutional investors are associated with higher Tobin's Q. This effect is robust to other alternative specifications of the network centrality's explanatory power. Indeed we show that the institutional centrality displays an effect over and beyond the investor portfolio characteristics, such as the size of funds managed, the weight of the shareholding, the degree of diversification, as well as the dispersion of multiple block-holdings or the investor type.

Agency versus hold-up: On the impact of binding say-on-pay on shareholder value

Alexander Florian Wagner[1,2], Christoph Thomas Wenk[1]
[1]University of Zurich, Switzerland; [2]Swiss Finance Institute

Many countries are planning to introduce new or to alter existing say-on-pay laws. The general thrust of recent regulatory developments in this respect is to further strengthen shareholder power. A set of policy experiments in Switzerland sheds light on the hitherto mostly theoretical argument that shareholders may, in fact, prefer to have limits on their own power. The empirical evidence suggests a trade-off: On the one hand, binding say-on-pay provides shareholders with an enhanced ability to ensure alignment. On the other hand, when shareholders can (partially) set pay ex post, this may distort ex ante managerial incentives for extra-contractual, firm-specific investments. Thus, shareholder power reduces agency costs, but accentuates hold-up problems. These findings inform the design of policy.

Board diversity and financial fragility: Evidence from European banks

Hisham Farag[1], Chris Mallin[2]
[1]University of Birmingham; [2]University of East Anglia

In the wake of the recent debt crisis in Europe, we investigate the influence of board diversity on both financial fragility and performance of European banks over the period 2004-2012. Corporate governance codes in Europe recommend unitary and dual-board systems; therefore, we believe that the influence of board diversity may vary across different governance mechanisms and that no other studies have addressed these variations and their influence on financial fragility across European countries. The results of the system GMM estimator show that diversity-financial fragility relationship is non-linear as appointing additional female directors after a critical mass of 23.6% has a negative and significant influence on banks' vulnerability to financial crisis across unitary boards. Similarly, beyond a critical mass of 18.2% and 23.2% female directors, appointing additional female directors on the supervisory and management boards respectively may decrease financial fragility across dual boards' banks. Furthermore, we find that high risk and more financially fragile banks are less likely to appoint female directors due to the perception that females are more risk averse and would tend not to condone more risky decisions. Our empirical results provide support for the recent calls for more board diversity by various governments and the EU. Moreover, the relationship between board diversity and financial fragility may potentially have important implications for the stability and confidence in European banking sector.

8:00am - 9:30am
Lecture Theatre 05

SUN1-05: Corporate social responsibility

Session Chair: **Omrane Guedhami**, University of South Carolina, United States of America

Corporate social responsibility, corporate governance and cost of equity: A cross-country comparison

Wolfgang Breuer, David Rosenbach, Astrid Salzmann
RWTH Aachen University, Germany

The diversity of corporate social responsibility (CSR) practices across companies or countries is still a black box. Based on a large international sample, this study examines the effects of firm-level corporate governance mechanisms in conjunction with country-level legal protection of investors on the choice of CSR engagement and firms' cost of equity capital. After controlling for endogeneity, causation and selection bias, our results show a decreasing effect of firms' cost of equity capital in CSR. In particular, we find that this relation is notably strong when country-level legal protection of investors is high. Conversely, the relative importance of firm-level cor-porate governance is especially high in countries with weak legal protection of investors.

Corporate social responsibility and tax avoidance: An international evidence

Abdullah Alsaadi[1], Aziz Jaafar[2], M.Shahid Ebrahim[3]
[1]Umm Al-Qura University, KSA and Bangor University, United Kingdom; [2]Bangor University; [3]Durham University

Using a cross-country dataset, this study examines the link between corporate social responsibility (CSR) and tax avoidance. It questions whether socially responsible firms sacrifice profits to balance the interests of various stakeholders, or whether firms only engage in CSR when it maximises shareholders' wealth. The empirical analysis is conducted on a sample of firms domiciled in 12 countries for the period of 2005-2011. Our results show a significant and positive association between CSR engagement and tax avoidance. This suggests that firms with high CSR scores are more likely to engage in tax avoidance, providing evidence in support of the view of 'organised hypocrisy' which illustrates that a gap exists between corporate talk and action. Our results are also consistent with the perspective of shareholder theory implying profit maximisation is the main social responsibility that firms aim to achieve. Furthermore, home-country characteristics are important in determining the link between CSR and tax avoidance.

Family control and corporate social responsibility

Sadok El Ghoul[1], Omrane Guedhami[2], Chuck Kwok[2], He Wang[2]
[1]University of Alberta; [2]University of South Carolina, United States of America

We investigate the impact of family control on corporate social responsibility (CSR) performance. Using newly collected data on the ultimate ownership structure of publicly traded firms in nine East Asian economies, we find that family control is associated with lower CSR performance, consistent with the expropriation hypothesis of family control. The negative relationship between family control and CSR is robust to alternative CSR measures, alternative estimation methods, and a different definition of family firms, as well as to endogeneity tests, subsample tests, comparisons with other large shareholders, and comparisons with family firms from other countries. In additional analyses, we find that CSR underperformance is more pronounced in family firms with greater agency problems and in countries with weaker institutions. These findings contribute to understanding the determinants of CSR and highlight the importance of corporate governance and the institutional environment in improving CSR performance of family-controlled firms.

8:00am - 9:30am
Seminar Room A

SUN1-06: Cash holdings

Session Chair: **Ali Nejadmalayeri**, Oklahoma State University, United States of America

Trust and corporate cash holdings

Evan Dudley, Ning Zhang
Queen's University, Canada

We examine the relation between the level of trust in a country and corporate cash holdings. Agency theories predict that shareholders in countries with low levels of societal trust will pressure firms to disgorge cash. Precautionary savings motives predict that firms located in countries with less trusting societies will hoard more cash in order to compensate for reduced access to capital markets. The first theory predicts a positive relation between trust and corporate cash holdings while the second theory predicts a negative relation between these two variables. Using data on firms located in 54 countries around the world we find evidence in favor of the agency theory-based explanation for the relation between trust and corporate cash holdings. Overall, our results highlight the role played by informal institutions in shaping corporate financial management.

Private firms' cash holding decisions: The role of risk attitudes

Valerio Poti
University College Dublin, Ireland

In this paper, we examine cash holding determinants using a large dataset of private firms from 15 European countries. Since, in this type of firms, there is an incomplete separation of the finances of key stakeholders from the finances of the firm, we complement the precautionary motive traditionally considered in the corporate finance literature, which typically takes the form of the hedging motive advocated by Acharya et al. (2007), with an attitudinal precautionary motive that takes into account stakeholders' risk attitudes and, in particular, their prudence and temperance. Under this motive, the firm-level demand for savings and cash-holding decisions is driven by determinants similar to those that drive the demand for savings by households and their holdings of cash. Our empirical results suggest that, in our sample of private firms, this novel precautionary motive naturally

complements or even supplants the traditional one, which is hard to reconcile with evidence on a negative relation between cash holdings and both investment and leverage.

Real asset liquidity, cash holdings, and the cost of corporate debt

Ali Nejadmalayeri, Adam Usman
Oklahoma State University, United States of America

We show analytically that there exits a nonlinear (U-shaped) relationship between credit spreads the liquidity of the market for real assets. We empirically verify that indeed there is an interior optimum level of market liquidity at which credit spreads are at their lowest. Our results are particularly pronounced for leveraged and high growth options firms. We further find that cash holdings do affect the influence of real asset liquidity on credit spreads. However, this interaction (i.e., substitution) between cash holding and real asset liquidity only significant when liquidity is high.

8:00am - 9:30am
Andrew Cormack

SUN1-07: Earnings and information

Session Chair: **Giulio Trigilia**, Warwick University, United Kingdom

Valuation of IPOs with negative earnings

Severin Johannes Zörgiebel
Goethe University Frankfurt, Germany

IPO firms are in general new to the market and presumably more opaque compared with other public companies. Determining the value of these firms is challenging and even more difficult when firm financials are weak or income is even negative. Compared to the current literature, this paper values IPOs especially with negative earnings by using a variety of different and novel techniques. The results generated by these models suggest that firms with negative income are valued higher compared with other IPO firms. Increased marketing efforts of venture capitalists and investment banks explain a large portion of the result of why firms with negative income have higher valuations. According to the findings, venture capitalists and underwriters have market power to generate high perception of IPOs and create investor demand to boost valuation. In addition, these high valued IPOs tend to underperform in the long-run as valuation premia converge toward peer levels.

Detecting earnings management: A stochastic frontier analysis approach

Seraina C. Anagnostopoulou, Mike G. Tsionas
Athens University of Economics and Business, Greece

In this paper, we apply Stochastic Frontier Analysis (SFA) in order to detect earnings management by modelling economic profitability as a function of reported accounting profitability, as well as firm and industry-specific proxies for economic rents, and also previous period true profitability. The model we build makes the assumption that the direction of earnings management is inherently unknown, expecting that managers (i) may not misreport at all, (ii) may be upwards biased or (iii) may be downwards biased. Our study contributes to previous research by modelling the behavior of true economic profitability using SFA, which further permits statistically modelling this behavior as a function of reported earnings, by considering true profitability

to be inherently and ex ante unobservable, while making no initial assumptions about the direction of earnings management. Our model further accounts for noise in the modelling of true earnings, in the context of arguments in past research supporting that true earnings management actually may not be really observable even ex post. This modelling process additionally allows us not to make any assumptions about a linear behavior of what is considered to be ‘normal’ profitability, and further accounts for all possible forms of earnings management.

Sharing profits and losses under hidden information

Giulio Trigilia
Warwick University, United Kingdom

Assets expansions often generate hidden information: firm’s insiders are better informed about realised or expected outcomes than outsiders, such as financiers or regulators. Existing theories – both costly-state-verification and incomplete contracting models – argue that the optimal form of external finance under hidden information is debt. This paper shows that the result depends on the assumption that the “uninformed” agents observe nothing ex post. The assumption is not only sufficient, but also necessary for the optimality of debt: it is otherwise optimal to share some profits and losses. Eventually, when hidden information is sufficiently low, sharing all profits and losses – pure equity finance – is optimal and it dominates debt. The amount of assets backed by debt claims (leverage) monotonically increases in the degree of hidden information; a prediction for which I find empirical support in the context of US public firms, and that is consistent with the 19th century infrastructures buildup and the genesis of stock markets.

9:30am - 11:00am
Nelson Mandela Lecture Theatre

Keynote Presentation by Professor Colin Mayer, Said Business School

Session Chair: **Thomas Noe**, University of Oxford, United Kingdom
Presentation title: Ownership Matters

11:00am - 11:15am
Entrance Hall

Refreshments break

11:15am - 12:45pm
Nelson Mandela Lecture Theatre

SUN2-01: Special Session on Financial Distress and Lending Limits

Session Chair: **Ralph De Haas**, EBRD, United Kingdom

Bank debt and trade credit for SMEs: International evidence

Guillaume Andrieu[1], Raffaele Stagliano[1], Peter Van Der Zwan[2]
[1]Montpellier Business School, France; [2]Erasmus School of Economics

This paper examines the links between firm age, firm size and the ability to obtain capital in a sample of European SMEs. The results indicate that age and size are positively linked to debt capacity. Furthermore, our analysis reveals that it is crucial to distinguish between bank debt financing and trade credit. Young and small firms are more subject to denial due to the higher moral hazard they represent for a bank. Only very young firms are more constrained for trade credit. The results of simultaneous analysis show that trade credit is positively related to bank credit financing, thus providing empirical support for the complementarity of these forms of financing

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Political connections, informational asymmetry,and the efficient resolution of financial distress

Sanjay Banerji[1], Madhav Aney[2]
[1]University of Nottingham, United Kingdom; [2]Singapore Management University, Singapore

We show that securities issued by a distressed firm, often through exchange offers, provide the most efficient resolution of _financial restructuring. Information asymmetry between the firm-bank coalition and small bondholders gives rise to other forms of distress resolution such as refinancing, public workout, and the inefficiency of liquidation. We _find that political lobbying by the firm-bank amplifies these inefficiencies and inhibits the development of private market for distressed securities. Cross-country evidence is consistent with this and indicates that improved creditor rights, and information facilitating credit bureaus interact in reducing the likelihood of inefficient distress resolution.

The limits of lending: Banks and technology adoption across Russia

Cagatay Bircan[1,2], Ralph De Haas[1]
[1]EBRD, United Kingdom; [2]Tilburg University, The Netherlands

We exploit historical and contemporaneous variation in local credit markets across Russia to identify the impact of credit constraints on firm-level innovation. We find that access to bank credit helps firms to adopt existing products and production processes that are new to them. They introduce these technologies either with the help of suppliers and clients or by acquiring external know-how. We find no evidence that bank credit also stimulates firm innovation through in-house R&D. This suggests that banks can facilitate the diffusion of technologies within developing countries but that their role in pushing the technological frontier is limited.

11:15am - 12:45pm
Rhodes Trust Lecture Theatre

SUN2-02: Executive pay and performance

Session Chair: **Jean Milva Canil**, University of Adelaide, Australia

Executive compensation and open market share repurchases

Waqar Ahmed
University of Warwick, United Kingdom

The extant literature views open market share repurchase announcement either as signals of firm undervaluation or as being agency driven. This paper seeks to test whether the market distinguishes between the two motives by observing the underlying managerial wealth incentives. In theory,

better convergence between executive and shareholder wealth interests and risk preferences should lower agency costs thus increasing the perceived credibility of managements' share buyback announcement. My results show that executive compensation arrangements play an important role in explaining the market reaction to, and actual share repurchase decisions of, firms that announce buyback programs. In addition; I show the effect of executive compensation arrangements are stronger for firms that suffer from higher information asymmetry or are undervalued. This study makes an original contribution to the literature by demonstrating that the market approximates the value signalling effect of a buyback announcement by observing the underlying managerial repurchase incentives and responds accordingly.

The impact of foreign government investments on corporate performance: Evidence from the US

Elvira Sojli, Wing Wah Tham
Erasmus University, Netherlands, The

Foreign and politically connected large investors, like foreign government investors, improve

firm value through the provision of foreign market access and government-related contracts. In

the short run, the market welcomes foreign government investments in expectation of potential

monitoring and internationalization benefits. In the long run, the target firms' degree of inter-

nationalization and Tobin's q increase substantially after foreign government investments. The

increase in q is directly related to the number of government-related contracts granted by the

investing countries. The target companies contribute to the investors' markets by transferring

technological know-how, increasing their competitiveness, and providing certification for their

markets.

Equity-based pay and performance declines

Jean Milva Canil, Bruce Rosser
University of Adelaide, Australia

This article explores both the timing and choice of equity-based pay when firms experience an abrupt decline in industry-adjusted stock returns. We find that boards proactively adjust equity-based pay in the year prior to the decline. Using a difference-in-difference design which exploits the introduction of FAS 123R, we also find that the source of decline determines the prior choice of equity-based pay. Boards tend to grant stock prior to a decline in operating performance (economic decline) but tend to grant options prior to leverage increases unaccompanied by lower operating performance (financial decline). Further, firms making the correct adjustments are found to outperform those that do not for at least three years following the decline. Collectively, our results suggest that the choice of equity-based pay is particularly important when firms experience abrupt declines.

11:15am - 12:45pm
Edmond Safra Lecture Theatre

SUN2-03: Banks and institutional settings

Session Chair: **Josep A Tribo**, Universidad Carlos III, Spain

Internal capital market practices of multinational banks: Evidence from South Africa

Adeline Gilberte Liliane Pelletier
London School of Economics, United Kingdom

Professional connections between firm and bank: How do they impact relationship banking?

Yuejuan Yu
Shandong University, China, People's Republic of

Banks' equity holdings and their impact on security issues in different institutional settings

Josep A Tribo
Universidad Carlos III, Spain

11:15am - 12:45pm
Lecture Theatre 04

SUN2-04: Networks and political connections

Session Chair: **Arnab Bhattacharjee**, Heriot-Watt University, United Kingdom

Political connection and overinvestment: Evidence from China

Zhicheng Zhang
University of Geneva, Switzerland

I study how political connections can impact a firm's financing and investment decisions, and lead to a firm's overinvestment reflected in negative abnormal returns. Based on the shock of the credit supply in China 2009, I compare the behaviors of political connected firms with non-connected ones before and after the event. Political connected firms are pressured to borrow more and invest more. This increase of investment leads to negative abnormal stock returns as a consequence of value destroying (overinvestment).

Political money contributions of US IPOs

Dimitrios Gounopoulos[1], Antonios Kallias[2], Konstantinos Kallias[3]
[1]University of Sussex, United Kingdom; [2]University of Sussex, United Kingdom; [3]University of Sussex, United Kingdom

We produce the first study to explore the effect of political money contributions on IPO valuation. Drawing evidence from the U.S., we show that both lobbying and PAC expenditure pay off on issue day as donors incur less underpricing, an effect that can be amplified by contribution size and strategic targeting of recipients. Donor IPOs also experience negative offer price revisions and lower aftermarket volatility. Collectively, our results offer new empirical grounding to information asymmetry and bookbuilding theories.

Inter-firm networks: Three US auto manufacturing giants and their suppliers

Sayan Chakraborty[2], Arnab Bhattacharjee[1], Roger Calantone[2], Taps Maiti[2,1]
[1]Heriot-Watt University, United Kingdom; [2]Michigan State University

There is substantial interest in the current literature -- spanning finance, management sciences and economics -- on the network structures between business firms. In this context, very important question centres around the factors that affect the stability and resilience of inter-firm networks. What kind of network structure offers the best ability to withstand financial shocks, or what network would offer the best advantage against credit constraints? How closely are these linkages related to director or ownership networks? Whar roles do relationships with principal suppliers or customers play? Are the networks driven by supply-side or demand-side linkages? In this paper we examine the network links between 3 major US auto manufacturers and their intermediate suppliers. We develop and apply methodology that captures the latent linkages between firms based on a financial risk model. Our findings highlight new evidences on financial decision making and financial strategies for those firms, in terms of how they benefit from network externalities.

11:15am - 12:45pm
Lecture Theatre 05

SUN2-05: Cross-border M&As

Session Chair: **Yeqin Zeng**, ICMA Centre, Henley Business School, University of Reading, United Kingdom

Revisited role of industrial specialization in cross-border mergers and acquisitions from developed countries (European Union) to emerging countries

Xuehua {Danny} GU
Eurofidai, CERAG,CNRS, University of Grenoble, France

Cross-border mergers and acquisitions (CBM&As) to emerging countries have increased phenomenally but our knowledge is still very limited to the announcement effects of the M&As to emerging countries. This paper contributes to the fewer M&As and diversification literature concerning the announcement effects to emerging countries. By using a unique M&As sample containing 1,732 completed M&As from 15 most developed countries in European Union to 18 emerging countries, we find CBM&As to the emerging countries increased acquiring shareholders' wealth significantly. However, comparing to CBM&As inside European Union, we find the cumulative abnormal returns are significantly lower. We further explore market price reactions by focusing on the role of industrial specialization, and our empirical results reveal industrial specialization is valued negatively by the markets. Our findings suggest adopting industrially diversified M&As to emerging countries should be the immediate concerns for those acquiring firms in the developed countries.

Two sides of the same coin: Disentangling the coinsurance effect and the diversification discount in M&A transactions

Christoph Kaserer, Mario Fischer, Patrick Bielstein
Technische Universität München, Germany

This paper contributes to the vast literature on the effects of corporate di- versification by showing that there always coexists a bright side (coinsurance effect) and a dark side (diversification discount) of internal capital markets. By analyzing the effect of the combined firm in U.S.-based M&A transac- tions on the ex-ante cost of capital, we show that it can be split up in two offsetting components. First, we identify the existence of a statistically and economically significant coinsurance effect. At the same time, however, we also identify the existence of a potentially offsetting, statistically and eco- nomically significant diversification discount. Second, we show that which of the two effects dominates in a given transaction is contingent on whether the acquiring firm has a track record on how to efficiently handle internal capital markets. These results hold against a battery of robustness test.

Does corporate financial risk management add value? Evidence from cross-border mergers and acquisitions

Yeqin Zeng[1], Zhong Chen[2], Bo Han[3]
[1]ICMA Centre, Henley Business School, University of Reading, United Kingdom; [2]ICMA Centre, Henley Business School, University of Reading, United Kingdom; [3]College of Business, Central Washington University

We study the effect of financial hedging on firm performance with a sample of 1,369 cross-border mergers and acquisitions (M&As) initiated by S&P 1500 firms between 2000 and 2014. Our results show that derivatives users have higher acquirer cumulative abnormal returns (CARs) around deal announcements than non-users, which translates into a $174.3 million shareholder gain for an average-sized acquirer. Related to the CAR improvement, acquirers with financial hedging programs also have lower implied stock volatilities and higher deal completion probabilities than those without such programs. In addition, financial hedging reduces acquirers' waiting costs, allowing the longer negotiation time between acquirers and targets. Finally, we find that financial hedging has a long-term effect on acquirer firm value such that derivatives users have better post deal long-run performance than non-users. Overall, our findings provide new insights on a link between corporate financial hedging and investment decisions.

11:15am - 12:45pm
Seminar Room A

SUN2-06: Information and responsibility

Session Chair: **John Bernard Holland**, Glasgow University, United Kingdom

Short on drugs: Short selling during the drug development process

Henk Berkman, Marco Eugster
The University of Auckland, New Zealand

Announcements related to the drug development process can have profound impacts on the market valuations of firms operating in the pharmaceuticals and healthcare industries. This can create substantial opportunities for sophisticated investors who possess superior information or analytical abilities. We document that one particular subgroup of sophisticated investors, short sellers, appears to profit from these opportunities. We find that short sales rise substantially in the days leading up to drug development announcements with the most negative announcement returns. This effect is much less pronounced or non-existent for similar events with the most positive announcement returns.

Peer effects of corporate social responsibility

Jie Cao[1], Hao Liang[2], Xintong Zhan[3]
[1]Chinese University of Hong Kong, Hong Kong S.A.R. (China); [2]Singapore Management University; [3]Chinese University of Hong Kong, Hong Kong S.A.R. (China)

We investigate how firms react to their peers' adoption of corporate social responsibility (CSR) by using a regression discontinuity design that relies on "locally" exogenous variations of CSR generated by shareholder proposals that pass or fail by a small margin of votes. Specifically, we find that peers of a voting firm who passed a close-call CSR proposal experience lower announcement returns and higher following-year CSR scores compared to those of a voting firm that marginally failed a CSR proposal. Such effects are stronger in peer firms with higher competitive pressure, better CSR performance relative to the voting firm, and a more transparent information environment. We find a more pronounced negative cumulative abnormal returns and a smaller CSR improvement in peer firms with higher financial constraints. Taken together, our empirical results show that peer effects play an important role in shaping firms' CSR performance and further confirm the argument that CSR has strategic value.

Understanding the 'market for information' through field research and theoretical development

John Bernard Holland
Glasgow University, United Kingdom

Understanding the 'market for information' through field research and theoretical development

Abstract 28 July 2015

The 'market for information' (MFI) is a hidden but substantial mechanism in the world of accounting and finance connecting information about companies to the stock market via intermediaries. The MFI covers many firms, intermediaries, and financial institutions in globally connected financial centres. It is a core structure and mechanism for valuation, assurance and governance. The paper seeks to extend understanding of the 'market for information' (MFI) through field research and theoretical development.

Field studies are used to develop an 'empirical narrative' for MFI structure, process and outcomes. This reveals that the MFI involves economic, knowledge and social processes in production, exchange, and use of information between agents such as company management, analysts and fund managers. Structure in the form of knowledge, social and organisational context is central to ongoing MFI economic processes and decisions between MFI agents in the MFI. Outcomes include changes in markets, firms and others.

The empirical narrative is further developed using insights from major information and knowledge failures in the MFI during: the 'dot.com' boom; the Enron case; and during the great financial crisis (GFC). The problems and periods of change were key empirical means to understand interactions between MFI social structure, knowledge, actions (economic and social) and outcomes as the problems and change processes rendered visible the previously invisible.

Finance theory provides a traditional way to interpret empirical findings. However, there are major limitations to this conventional theoretical approach. Major failures in this market and in understanding the MFI during the financial crisis have been attributed in part to this conventional framework.

The paper develops a new conceptual framework or 'theoretical narrative' to extend understanding of the MFI empirical insights. Stones (2005) 'strong structuration' theory and related literature are employed to interpret ongoing MFI processes and structures. Stones (2005) 'quadripartite framework' and cycle are also to explore major problems and longer term structural change in the MFI. This can be related to finance theory explanations and shows the combined relevance of new theoretical sources to the study of accounting and finance phenomena.

Finally, the paper demonstrates that a coherent combination of new empirical narrative and theoretical narrative is essential to develop policy prescriptions and new regulation to deal with problems and change in the MFI. In particular this provides the frame to propose changes in the 'world of knowledge' and in (concentrated and elite) social and economic structures in the MFI.

Key words: Information, governance, markets, institutions, knowledge, social, theory, policy

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11:15am - 12:45pm
Andrew Cormack

SUN2-07: Financial markets

Session Chair: **Helen Popper**, Santa Clara University, United States of America

Information networks and co-operation in financial markets: An experimental analysis

Andrea Teglio[1], Gianluca Grimalda[1,2], Ivan Barreda Tarrazona[1], Andrea Morone[1]
[1]Universitat Jaume I, Spain; [2]Institute for the World Economy, Kiel, Germany

We study experimentally the implications of the possibility to share information among small groups of imperfectly informed traders prior to the opening of the financial market. We study how sensitive this pre-play cooperation device is to the presence of better informed (privileged) groups of traders and how it affects traders' behaviour ex-post. Our results indicate a persistent use of the pre-play cooperation device, independently of the presence of better informed groups, and a reinforcement of the cooperation in the more cooperative groups in the past and in those outperforming other groups in their market. Individuals do not seem to use information sharing as a way to address inequality between their group and the market. However, they reduce information sharing when their own earnings is below the group average. Nor do individuals act to redress inequality between their own earnings, or their group earnings, and privileged traders' earnings. On the other hand, we find robust evidence consistent with the idea that group success matters for individuals. The higher one's group payoffs, and the lower the market average payoffs, the higher the probability to share information. Interestingly, this effect is only significant when privileged traders are present. Moreover, reciprocity – namely, the observation of cooperative behavior by other group members in the past – exerts stronger statistical effects in markets with privileged traders; while individual

altruism, measured through a four-item scale involving Dictator-like decisions, exerts significant effects only in markets without privileged traders. Overall, we conclude that pro-social preferences such as inequality aversion and, even more markedly, group attachment, influence individuals' decisions as to whether to share information. Finally, we find that low-quality information is revealed with higher frequency and we also find an interesting asymmetry in the sharing of good vs. bad signals. As bad news anticipate a bear market, in which making high profits is more difficult, due to limitations in short-selling, agents more often reveal information that anticipates a bad state of the world than a good one.

Advertising, attention, and financial markets

Florens Focke, Stefan Ruenzi, Michael Ungeheuer
University of Mannheim, Germany

We investigate the impact of product market advertising on investor attention and financial market outcomes. Using daily advertising data allows us to identify short-term effects of advertising. We measure daily investor attention based on the company's number of Wikipedia page views. We show that TV and newspaper advertising have a positive impact on short-term investor attention. They also positively influence turnover and liquidity, but the effects are not economically significant. Most importantly, asset prices are not influenced by advertising in the short run. These findings are different from studies using yearly advertising expenditures and suggest that attempts to temporarily inflate stock returns via short-term adjustments to advertising are ineffective.

Return comovement

Helen Popper[1], David Parsley[2]
[1]Santa Clara University, United States of America; [2]Vanderbilt University, United States of America

Using a new gauge of return comovement in a panel of 33 economies with stock exchanges operating over the period 1995 to 2013, we find that crises and the stability of international macroeconomic policy arrangements are important determinants of return comovement. These variables, along with stock market turnover, overshadow the empirical relevance of international differences in country risk, corruption, and investor protections.

12:45pm - 2:00pm
Entrance Hall

Buffet lunch

2:00pm - 3:30pm
Nelson Mandela Lecture Theatre

SUN3-01: Panel on "Do banks fail because they comply with governance codes?”

Session Chair: **Robert May**, University of Oxford, United Kingdom
Panelists:
Colin Mayer, Saïd Business School, University of Oxford, UK
Paul Pitt Moxey, London South Bank University, UK
Shann Turnbull, International Institute for Self-governance, Australia

Panel on "Do banks fail because they comply with governance codes?”

Shann Turnbull
International Institute for Self-governance, Australia

2:00pm - 3:30pm
Rhodes Trust Lecture Theatre

SUN3-02: Culture, criminal behaviour and firm value

Session Chair: **Vikram Nanda**, UT Dallas, United States of America

Who does the FDIC sue – Looters, gamblers, or insurers?

Ken Okamura[1], Christoffer Koch[2]
[1]University of Oxford, United Kingdom; [2]Federal Reserve Bank of Dallas

We show that the FDIC pursues cases against the directors and officers of failed commercial banks that are predictable from published regulatory filings on an ex ante basis and not just because they represent “deep pockets” that help to mitigate the loss to the FDIC. We analyze all 408 U.S. commercial banks that were taken into receivership by the FDIC between 2007-2012. We find evidence consistent with looting or gambling for resurrection among the banks whose officers and directors are sued. This behavior appears to be curbed post 2010 Q2.

M&A deal initiation and managerial motivation

Chunling Xia, Jana Fidrmuc
Warwick Business School, University of Warwick, United Kingdom

On a hand-collected sample of around 1000 US publicly listed target firms, we show that target versus bidder initiated M&A deals differ in two main respects. First, target initiated deals have higher insider and executive management ownership that motivates the board and management to engage in the sale. Second, target initiated firms are more levered and seem to have higher growth options. This suggests that an important motivation behind the board's decision to initiate a sale of their firm is to preserve growth options in a situation with debt overhang. Moreover, target initiated deal firms grant their CEOs more stocks and options just before the deal announcement, which should increase the alignment of interest between the CEO and shareholders during the acquisition negotiations. A complementary analysis, comparing the group of deal firms (together target and bidder initiated firms) to other non-deal firms that remained publicly listed, shows that the differences between deals versus non-deal firms are much larger relatively to the differences within the deal firms based on deal initiation.

Criminal politicians and firm value: Evidence from India

Vikram Nanda[1], Ankur Pareek[2]
[1]UT Dallas; [2]Rutgers Business School

Using unique datasets on the criminal background of Indian politicians and details on investment projects by Indian firms, we provide comprehensive evidence on the effects of criminal/corrupt politicians on firm value and investments. We use a regression discontinuity approach and focus on close elections to establish a causal link between the election of criminal politicians and firms' value and investment decisions. The election of criminal politicians leads to lower election-period and project-announcement stock- market returns for private-sector firms based in the district. There is a sharp decline in the total investment by private sector firms in criminal-politician districts. Interestingly, criminal-politicians appear to offset the decline in private-sector investment by a roughly equivalent increase in investment by state-owned firms. Corrupt politicians are less destructive of value when their party is in power and when they occupy ministerial positions.

2:00pm - 3:30pm
Edmond Safra Lecture Theatre

SUN3-03: Governance and institutions

Session Chair: **Jay Dahya**, Baruch College Zicklin School of Business, United States of America

Firm size and firm’s debt with banks: A dangerous liaison?

Marko Petrovic, Andrea Teglio, Simone Alfarano
University Jaume I, Spain

This paper investigates the distribution of bank debt among big Spanish companies. We observe

a very fat tailed distribution of bank debt, especially long-term, showing that bank debt is significantly

concentrated among few big Spanish firms. In particular, the concentration of long-term

bank debt is the highest among all other assets or liabilities in companies’ balance sheets. The

highest ratio of bank credit over total assets is found in the biggest companies, especially in

terms of total assets. On the other hand, trade credit is more equally distributed among Spanish

firms. This capacity of big firms to attract bank credit could be one of the explanations for power

law distribution in firms’ size. In order to understand the effects of bank credit allocation among

firms in the Spanish economy, we study the performance of companies, ranked according to the

amount of received bank credit. We find that, before the crisis, firms that got more bank credit

had also the higher growth rate of total assets, but during the crisis (and up to now) this relation

has been completely inverted, showing a huge shrinking in total assets of firms that had been

more financed by banks.

Institutional reform and the related party transactions: Evidence from China

Wen-Sheng Wang, Jung-Hua Hung
National Central University, Taiwan, Republic of China

This study investigates the impacts of the institutional reform on firms' tunneling behavior. Using a sample of Chinese listed firms from 2003 to 2013, we find that the institutional reform restrains listed firms from conducting self-dealing transactions and this effect is much stronger in non-SOEs. Moreover whether the controlling shareholder of non-SOEs is the domestic legal person or the foreign legal person, the tunneling behavior is significantly reduced. Further evidence shows that firms controlled by the domestic legal persons decrease the tunneling behavior whether they are under good governance mechanisms or not; while firms controlled by the foreign legal persons decrease their tunneling behavior in firms with multiple large shareholders, higher contestability and both well-developed and under-developed regions. Our results have some implications for policy makers.

Do investors follow directors

Jay Dahya[1], Richard Herron[2]
[1]Baruch College Zicklin School of Business, United States of America; [2]Babson College, United States of America

Using over 5 million fund-firm-director observations, we show that funds make larger initial equity investments in companies on the arrival of a new director with whom the fund had a prior equity relation. Larger fund investments occur when followed directors previous firm outperforms in terms of both operating and stock price performance. There is little evidence that this outperformance carries over to their new firms.

2:00pm - 3:30pm
Lecture Theatre 04

SUN3-04: Ownership and financing choices

Session Chair: **Antoine Renucci**, Université de Pau et des Pays de l'Adour, France

Solving the SMEs' extreme debt conservatism puzzle

Izidin El kalak, Robert Hudson
University of Hull, United Kingdom

This paper investigates the reasons for SMEs' choice of being debt-free in their capital structure. Furthermore, we study to what extent different SME size segments (namely micro, small, and medium) affect the debt-free decision. We use a dataset of 95,450 firm-year observations of which there are 18,764 debt-free firm-year observations. We find that borrowing constraints and financing activities play a significant role in the debt-free capital structure decisions of the SME. A surprising result is that a large number of debt-free SMEs pay significantly higher dividends than their counterparts with debt. Finally, we find that non-debt tax shields, pension obligations, and lease commitments do not play a significant role in explaining the debt-free policy.

When do owners prefer longer debt maturity? International evidence from SE Asia

Sorin Rizeanu[1], Sadok El Ghoul[2], Omrane Guedhami[3]
[1]University of Victoria, Canada; [2]University of Alberta, Canada; [3]University of South Carolina, USA

A firm's debt maturity is often considered an indication of its governance health, as banks will impose shorter maturities on firms that call for increased monitoring. However, in many countries, blockholders benefit from the existence of private networks, commonly including banks and other financial institutions, thus accessing long-term debt despite likely corporate governance concerns. We focus on large firms from SE Asia, for which extensive evidence proves the existence of such private networks of influence. We show that in these countries a higher separation of ownership and control rights is significantly associated with the use of longer debt maturity, evidencing that when blockholders are more likely to extract private benefits they will prefer longer maturities in order to avoid bank supervision. The effect is particularly notable when the largest owner is a widely held corporation.

Family-run firms: Growth and financing choices

Antoine Renucci
Université de Pau et des Pays de l'Adour, France

I model the growth and financing choices by the head of the family of a family-run firm. Specifically, I examine the following trade-off. On the one hand, letting family members participate in decision making allows the head of the family to develop family members' self esteem, a distinctive dimension of the head of the family's "nurturing" role emphasized by the anthropology literature. On the other hand, that decreases the firm's growth potential since decision making within the family is impaired by (i) emotionally-based conflict, (ii) the fact that the points of view expressed by family members are weighed equally rather than on their relative merits, and (iii) the fact that family members have differing agendas. I first show how the head of the family's decision to pursue high growth versus low growth depends on family size, composition (age, gender, etc.), and on cultural norms. Then, I relate this choice to the decision to sell the firm out, approach a venture capitalist, or approach a bank.

2:00pm - 3:30pm
Lecture Theatre 05

SUN3-05: Tax evasion, avoidance and environment

Session Chair: **Nikolaos Artavanis**, University of Massachusetts Amherst, United States of America

From avoidance to asset? The effect of tax avoidance on corporate innovation

Jasmin Gider[1], Mintra Dwarkasing[2], Narly Dwarkasing[1]
[1]University of Bonn, Germany; [2]Tilburg University, The Netherlands

We empirically investigate the impact of tax avoidance on corporate innovation. On the one hand, tax avoidance may be conducive to long-term investment because it increases internal funds and thereby alleviates financing constraints. On the other hand, tax avoidance may hamper innovation due to decreasing corporate transparency and agency conflicts. We find evidence in favor of the latter: Exploiting exogenous variation in tax avoidance introduced by the so-called Check-the-Box regulations in 1997 in the US, we document a negative effect of tax avoidance on innovation, which is statistically and economically significant. This negative effect is amplified for firms with weak governance but less pronounced for firms with financial constraints. Our results show a novel channel through which tax avoidance creates costs.

Managerial share ownership, life cycle theory and dividend policy in an imputation tax environment

Balasingham Balachandran[1], Arifur Khan[2], Paul Mather[1], Michael Theobald[3]
[1]La Trobe University, Australia; [2]Deakin University; [3]University of Birmingham

Australia provides a unique experimental setting to examine the roles of the earned/contributed capital mix and managerial share ownership in dividend policy as it has a full imputation tax environment in contrast to the classical tax environment in US. In an imputation environment where imputation credits are available, we find that firms with franking credits available are more likely to pay dividends and have higher payout ratios. We further show that profitability plays a more significant role than the earned /contributed capital mix on the likelihood of paying a dividend and upon the determinants of the dividend payout ratio in contrast to the findings of DeAngelo, DeAngelo and Stulz (2006) in the US. We also find that managerial share ownership is positively related to the probability of paying a dividend and to the determinants of the dividend payout ratio, in contrast to the findings of Rozeff (1982) in the US. The study conclusively demonstrates that the tax system can have significant impacts upon corporate dividend policy.

The effect of the VAT rate on tax evasion: Evidence from the restaurant industry in Greece

Nikolaos Artavanis
University of Massachusetts Amherst, United States of America

This paper examines the effect of Value-Added Tax (VAT) rate changes on tax evasion in an environment of limited tax-shifting opportunities. We focus on the recent VAT rate reduction in the Greek restaurant industry (August 2013) and implement a difference-in-difference methodol- ogy using large fast-food restaurants as the control sample, because they exhibit high constraints on under-reporting. We find that the reduction of the VAT rate for non-alcoholic sales from 23% to 13% increases the reported sales to inputs ratio, which we use as a measure of hidden sales uncovering, by 11.8% on average. This result is consistent with VAT ratio targeting, the partial adjustment of VAT revenues to the lower tax rate, in order to maintain a reasonable VAT ratio (revenues to credits) and avoid signaling evading behavior to tax authorities. We also document the reverse effect for the VAT rate increase in September 2011. The effect is more pronounced for small firms and firms with less alcoholic sales. Given the dominant role of these firms in the industry, we show that (i) the partial downward adjustment of VAT revenues and (ii) the higher direct taxes from the increase in reported sales can offset the fiscal cost from the rate reduction.

2:00pm - 3:30pm
Seminar Room A

SUN3-06: IPOs

Session Chair: **Thomas Jason Boulton**, Miami University, United States of America

The role of admission documents on the pricing of UK IPOs

Mesut Tastan[1], Sonia Falconieri[2]
[1]London School of Economics, United Kingdom; [2]Cass Business School, United Kingdom

Using text sentiment analysis, we investigate the relation between the tone, length and information content of prospectuses and the underpricing of a

sample of UK IPOs between 2004 and 2012. The peculiar feature of the UK IPO market is the wide use of fixed-priced offerings to go public, which, contrary to bookbuilding, do not allow any price discovery. Our results show that the length of the admission document has a strong impact on the pricing of fixed-priced IPOs. Specifically, we document that longer admission documents, and more importantly longer risk factor sections, increase the offer price while reducing the underpricing and ex post volatility. Conversely, the tone and content of the document seem to play a less relevant role. We further show that admission documents have become substantially longer after the recent financial crisis for all types of IPOs but their impact on IPO pricing appears to be significant only during the pre-crisis period.

The role of cornerstone and strategic investors in IPO survival

Susanne Espenlaub[1], **Arif Khurshed**[2], **Abdulkadir Mohamed**[3], **Brahim Saadouni**[4]

[1]The University of Manchester, United Kingdom; [2]The University of Manchester, United Kingdom; [3]The University of Manchester, United Kingdom; [4]The University of Liverpool, United Kingdom

We examine the impact of the allocation of initial public offerings (IPOs) to specific investor groups on post-IPO performance in terms of how long an IPO remains listed. We focus on the Hong Kong IPO market, where detailed data on share allocation are publicly available. In this context, we assess the roles of so-called cornerstone and strategic investors in IPOs, who agree with the issuers a specified investment in the IPO and enter into lock-up periods. We find that the presence, number and lock-up periods of strategic investors, and the prevalence of foreign strategic investors, significantly increase IPO survival (delay the time to delisting). By contrast, the impact of cornerstone investors is at best marginally significant. Our results are robust to using different measures of survival.

Conservatism and international IPO underpricing

Thomas Boulton[1], **Scott Smart**[2], **Chad Zutter**[3]

[1]Miami University, United States of America; [2]Indiana University, United States of America; [3]University of Pittsburgh, United States of America

We study the impact of country-level accounting conservatism on IPO underpricing. Examining 10,103 IPOs from 36 countries, we find that the timely incorporation of news into earnings, both good and bad, is negatively correlated with underpricing. Most notably, IPOs are underpriced less in countries where the incremental speed of bad news recognition relative to good news recognition (i.e., conservatism) is greater. These findings indicate that conservatism is an efficient contracting mechanism that constrains managerial opportunism and reduces bias in accounting measures leading to a reduction in information asymmetry and, therefore, a reduction in IPO underpricing. Additionally, we find that the relation between conservatism and underpricing is stronger in countries that promote the rule of law, which suggests that conservatism helps mitigate the need to underprice to insure against future liability.

2:00pm - 3:30pm
Andrew Cormack

SUN3-07: Financial markets and institutions

Session Chair: **Igor Loncarski**, University of Ljubljana, Faculty of Economics, Slovenia

Short selling before initial public offerings

Linquan Chen, **Chendi Zhang**

Warwick Business School, United Kingdom

This paper shows that the presence of security lending supply before an initial public offering (IPO) reduces the initial stock return following IPO and improves the subsequent long-run performance. We use a sample of British firms that went public via a two-stage IPO procedure where a firm becomes publicly traded on the London Stock Exchange in the first stage, and offers new shares to the public in the second stage. Stocks are lendable before the new equity issuance which relaxes the short-sale constraints that investors typically face in a conventional IPO. We find that short-sale unconstrained two-stage offerings are associated with lower IPO underpricing, and better long-run performance than short-sale constrained two-stage ones. Our results are consistent with the conjecture that short selling improves the pricing efficiency of the IPO market.

Pricing people-risk: Evidence from financial institutions

José Manuel Feria-Dominguez, **Enrique Jiménez-Rodríguez**, **Pilar Camacho-Rubio**

Pablo de Olavide University of Seville, Spain

Although people are the most important asset for companies, they are also a source of risk. People-risk involves both intentional and unintentional behavior, which results in operational losses for firms. The global financial crisis has higligthed not only the importance of business ethics but also the people-risk management in the banking industry.Therefore, the main goals of this paper are twofold: to identify four different people-risk categories (Internal Fraud, Employment Practices and Workplace Safety, Clients, Products and Business Practices and Execution, Delivery and Process Management), and to quantify the exposure to such risk by applying the concept of Value at Risk (VaR), giving rise to People-VaR. Moreover, this measure can be used as a key performance indicator (KPI) for sound management in financial institutions. Thereafter, the traditional Risk Adjusted Return on Capital (RAROC) is then adapted by using the People-VaR in order to evaluate people risk-adjusted performance. This paper highlights the strategic role that both magnitudes can play for designing the firm's Balance Scorecard (BSC) and monitoring its value creation.

Strategic insider trading: Evidence from the foreign exchange markets

Jonathan Batten[1], **Igor Loncarski**[2], **Peter Szilagyi**[3,4]

[1]Monash University, Australia; [2]University of Ljubljana, Slovenia; [3]Central European University, Hungary; [4]University of Cambridge, United Kingdom

Studies investigating insider trading invariably focus on the actions of insiders on stocks due to the surveillance techniques used and the success of prosecutions. Prosecutions of insider trading in the world's largest financial market – the foreign exchange market - are limited, with one recent exception: the prosecution in 2015 of Australian bank trader Lukas Kamay and Australian Bureau of Statistics analyst Christopher Hill for their use of pre-release Australian Bureau of Statistics data to profit from movements in the spot Australia-United States dollar (AUD/USD). Their successful prosecution relied upon a tip-off from a broker rather than price surveillance. In this paper we use the trade dates of Kamay and Hill to determine if low-frequency structural break tests commonly employed in stock market analysis could have identified the actions of insiders. Abnormal returns on the spot exchange AUD/USD rate are measured against an international portfolio of other leading currencies using a variety of intraday and interday measures of returns. Due to overnight and other intraday noise effects there were no differences in the abnormal returns on the days when Kamay and Hill executed their trades. However, the Garman-Klass measure of intraday volatility identifies higher intraday volatility on the trade days. This finding is consistent with evidence in stock markets where insiders will often attempt to mask their activities by trading during volatile time periods and is therefore consistent with the proposition that insiders act strategically to minimise the risk of detection, even though doing increases the chances of incurring losses.

3:30pm - 3:45pm
Entrance Hall

Refreshments break

3:45pm - 5:15pm
Nelson Mandela Lecture Theatre

SUN4-01: Special Session on Culture, Politics and Institutions

Session Chair: **M. Shahid Ebrahim**, Durham University, United Kingdom

Role of institutions on the finance-growth dynamics: New evidence from Transition Countries

Ayse Ulkuhan Demir

university of leicester, United Kingdom

This study provides a new evidence on the relationship financial development and economic growth for 26 transition countries under two groups, namely Commonwealth Independent States (CIS) and Central Eastern European (CEE) covering the period 1996-2013. The main contribution of the study is to investigate the role of institutions in shaping the finance-growth dynamics in the countries of interest. The results imply that in both CIS and CEE , an improvement in political and legal institutions has a remedial effect in the growth effects of financial development in line with the views of law and finance and interest groups theory. The more clear-cut threshold effects in CIS can be explained with the poor initial conditions that were prevalent in these countries in terms of political system and legal framework leading financial system to be more responsive to a change in institutional quality which in turn enhance economic growth.

Politics, judicial independence and corporate finance in China

Zhangkai Huang[1], **Lixing Li**[2], **Guangrong Ma**[3]

[1]Tsinghua University, China, People's Republic of; [2]Peking University, China, People's Republic of; [3]Renmin University, China, People's Republic of

Lack of judicial independence impairs legal justice and crushes investor confidence. Using recent political turmoil in China, we show that when the police system has excessive power and overrides the judicial system, it may pose a threat to the government. This generates incentives of the government to loosen its grip of the judicial system in order to maintain checks and balances. We measure judicial independence in China by looking at whether the provincial police chief controls the Communist Party's Politics and Law Committee. We show that lack of judicial independence has an adverse effect on firm's financing and investment behavior.

Agency costs, financial contracting and the Muslim world

M. Shahid Ebrahim[1], **Aziz Jaafar**[2], **Philip Molyneux**[3], **Murizah Salleh**[4]

[1]Durham University, United Kingdom; [2]Bangor University, United Kingdom; [3]Bangor University, United Kingdom; [4]Bank Negara Malaysia (Malaysian Central Bank), Malaysia

This paper studies agency cost of debt as a market imperfection impeding efficient financial contracting and thus economic growth. We investigate whether cultural factors such as the prohibition of interest have hindered the development of the Muslim world. We employ a simple capital structure model in an agency theoretic framework, in conjunction with a rational expectations setting, to illustrate this religious injunction to be welfare-enhancing. We propose a more efficient quasi-equity financing alternative for employment. Lastly, we attribute Muslim woes to weak-form property rights and deficiency of Islamic rulings (ijtihād) in the development of new financial instruments, institutions and markets.

3:45pm - 5:15pm
Rhodes Trust Lecture Theatre

SUN4-02: Institutional investors

Session Chair: **Samreen Malik**, New York University (Abu Dhabi), United States of America

A large but mysterious foreign investor: An empirical analysis of the largest sovereign foreign wealth fund investing in the Japanese stock market

Yoshikatsu Shinozawa
SOAS, University of London, United Kingdom

The objective of this paper is to identify what characteristics of a firm attract the large sovereign wealth fund investing in Japanese shares and to examine the possible impact on the target share performance. The focus of this paper is on the sovereign wealth fund ranked as the fifth largest shareholder in the Tokyo stock market whereas the published literature on this subject usually uses the aggregated data of various sovereign wealth funds investing in many host countries. Using sample firms from the top 500 companies in the Tokyo market from 2008 to 2013, the panel data analysis shows that the SWF prefers relatively small value shares with high ROE from the large cap market index. The analysis also provides little evidence of superior returns of the target firms, suggesting no impact on these target firms. All in all, the investment strategy and subsequent impact of the SWF in Japan should not cause concerns about political interference.

Pension funding status and the costs of bank loans

Balasingham Balachandran[1], Huu Duong[2], Van Vu[2]
[1]La Trobe University, Australia; [2]Monash University, Australia

We examine how the funding status of defined benefit pension plans affects the cost of bank loans for all US non-financial and non-utility firms from 1982 to 2013. We find a positive relation between the amount of pension deficit and the cost of bank loans. This relation is observed only amongst firms with pension deficit. Loans to these firms also tend to be smaller and of shorter maturity. The effect of pension deficits on the cost of borrowing is driven by firms with high degrees of financial constraint and weaker governance. Overall, our findings indicate that pension deficits represent an additional component of risk that is priced in private loans.

An empirical analysis of changes in the relative timeliness of issuer-paid vs. investor-paid ratings

Erik Berwart[1], Massimo Guidolin[2], Andreas Milidonis[3]
[1]SBIF. Chile; [2]Bocconi University, Italy; [3]University of Cyprus, Cyprus

We investigate the lead-lag relationships between issuer-paid and investor-paid credit rating agencies (CRAs), after the regulatory reforms in the U.S. (2002-2006) - including watchlists and outlooks. First, we find a weaker lead effect of investor-paid over issuer-paid CRAs: after 2002, causality turned bi-directional. Second, issuer-paid CRAs behave less conservatively with outlook changes than rating changes. Third, investor-paid downgrades are associated with more negative, statistically significant abnormal stock returns, than issuer-paid downgrades. Results support the hypothesis that issuer-paid CRAs improved their ratings' timeliness with recently implemented tighter regulations. However, differences in abnormal returns imply that investor-paid rating actions carry superior information.

Corporate takeovers and activist hedge funds

Samreen Malik[1], Mustafa Disli[2], Anthony Murray[3]
[1]New York University (Abu Dhabi), United States of America; [2]Gent University; [3]New York University (Abu Dhabi)

This paper studies whether the hedge fund activism aimed at forcing a sale of a target firm generates higher cumulative abnormal returns for the shareholders of the acquiring company than an acquisition of the target company through a tender offer? Using an event study, we evaluate the cumulative abnormal returns around the announcement date for the shareholders of the acquiring firm and compare the results for two different acquisition processes. The results indicate that relative to tender offers, hedge fund activism to force a sale, tends to generate higher cumulative abnormal returns for the shareholders of the acquiring company. This paper contributes to the debate surrounding hedge fund activism and its economic implications.

3:45pm - 5:15pm
Edmond Safra Lecture Theatre

SUN4-03: Information asymmetry and disclosure

Session Chair: **Manu Gupta**, Virginia Commonwealth University, United States of America

Information asymmetry and financial reporting effectiveness

Taufique Samdani
IESEG School of Management, France

This paper examines whether financial reporting effectiveness is sensitive to information asymmetry. Effectiveness is operationalized in terms of timeliness of market price adjustment to information in financial reports. An analysis of a quasi-natural experiment —an initial public offering (IPO) market regime with reduced information production, or greater information asymmetry, followed by a regime with greater information production, or reduced information asymmetry— reveals that post-IPO return volatility in firms with earnings yield (EY) greater than the industry's is greater in the regime with greater information asymmetry than in the regime with reduced information asymmetry. The findings, robust to endogeneity, suggest that financial reporting effectiveness in newly listed firms is sensitive to information asymmetry, independently of accounting standards and financial reporting quality.

Bad news disclosure and national elections: International evidence

Qingyuan Li[1], Si Li[2], Li Xu[3]
[1]Wuhan University, China; [2]Wilfrid Laurier University, Canada; [3]Washington State University, USA

We investigate whether managers withhold bad news around national elections in 37 countries over the period of 1982-2009. National elections create political uncertainty, which increases managers' incentives to temporarily restrict the flow of negative information about the firms under their control. The result will be fewer large stock price declines around national elections, followed by an increase in large price declines after elections. Consistent with the prediction, we find that firm stock is less likely to crash surrounding national elections, and are more likely to crash in the period after elections.

Cross-country variability in cost of raising equity: Evidence from seasoned equity offerings

Manu Gupta, Puneet Prakash, Nanda K. Rangan
Virginia Commonwealth University, United States of America

We examine how county-level governance affects the cost of raising equity. Using data on seasoned equity offerings from 35 nations, we find that the underwriting spread is determined by the litigation risk of issue certifiers, and offer underpricing is largely determined by the investment risk of the equity issue. Certification by underwriters is more credible under strong legal enforcement, resulting in less underpricing. Furthermore, underwriting spread increases with enhanced legal enforcement, offsetting the reduction in underpricing associated with strong legal enforcement. Our study offers insight into the effect of legal enforcement and regulatory policy on the cost of raising equity.

3:45pm - 5:15pm
Lecture Theatre 04

SUN4-04: Liquidity

Session Chair: **Sebastian Infante**, Federal Reserve Board, United States of America

Commonality in liquidity: Evidence from the First Transatlantic Exchange

Mohamed Mekhaimer[1], Pankaj Jain[2], Sandra Mortal[2]
[1]Clarkson University, United States of America; [2]University of Memphis, United States of America

In this paper, we use the introduction of the first transatlantic trading platform NYSE Arca Europe (NAE), as an exogenous shock to examine the impact of market design on commonality in liquidity. We find that commonality in liquidity increases significantly for stocks traded in the NAE, specifically, the introduction of the transatlantic NAE trading platform increases the comovement of NAE stocks with NAE aggregate liquidity while their comovement with the home market aggregate liquidity remains unchanged. Further, we find that the commonality in liquidity remains unchanged for matched non-NAE control sample stocks. Our results are robust to different methods for computing commonality, different liquidity proxies and across size quintiles. We conclude that market design and trading infrastructure has a significant impact on commonality in liquidity.

The second wave of global liquidity: why are firms acting like financial intermediaries?

Andrew Powell[1], **Julian Caballero**[2], **Ugo Panizza**[3]

[1]Inter American Development Bank, United States of America; [2]Inter American Development Bank, United States of America; [3]Graduate Institute, Geneva

Recent work has pointed to non-financial firms acting like financial intermediaries particularly in emerging economies. Corporates have been issuing large amounts in foreign currency and at the same time increasing liquid assets. In this paper we corroborate these findings but then ask the question, why this is happening? Drawing on the corporate finance and other recent work we suggest various possibilities. Our results suggest there is evidence for carry-trade activities but focused in countries with higher levels of capital controls, particular controls on inflows. We find little evidence for such activities given other potential motives. We posit this phenomenon is due more to the reaction of countries in the face of low global interest rates, QE and strong capital inflows than incomplete markets or the retreat of global banks due to impaired balance-sheets or tighter regulations.

To what extent does liquidity affect M&As' method of payment and performance? Evidence from China

Junhong Yang[1], **Alessandra Guariglia**[2], **Jie {Michael} Guo**[3]

[1]Sheffield University Management School, University of Sheffield, United Kingdom; [2]Department of Economics; University of Birmingham, United Kingdom; [3]Durham Business School, Durham University, United Kingdom

Using a panel of Chinese listed firms over the period 1998-2011, we examine the extent to which corporate liquidity impacts firms' acquisition decisions, method of payment choice, and performance following mergers. We find that cash-rich firms, and especially those that are more subject to tunneling, are more likely to attempt acquisitions. Furthermore, given the high opportunity cost of cash they face, as their investment opportunities rise, financially constrained firms become less likely to use cash payments in acquisitions. Our last set of results highlights the under-performance of cash acquisitions in both the short- and long-term.

Liquidity windfalls: The consequences of repo rehypothecation

Sebastian Infante

Federal Reserve Board

This paper presents a model of repo rehypothecation in which dealers intermediate funds and collateral between cash lenders (e.g., money market funds) and ultimate investors (e.g., hedge funds). Dealers take advantage of their position as intermediaries, setting different repo terms with each counterparty. In particular, the difference in haircuts represents a positive cash balance for the dealer that can be an important source of liquidity. The model shows that dealers with higher default risk are more exposed to runs by collateral providers than to runs by cash lenders, who are completely insulated from a dealer's default. In addition, collateral providers' repo terms are sensitive to changes in a dealer's default probability and its correlation with the collateral's outcome, whereas cash lenders' repo terms are unaffected by these changes. The paper also studies setting in which repo terms are driven by prime brokerage clients' desire to source assets for short positions. This paper rationalizes the difference in haircuts observed in bilateral and tri-party repo markets, reconciles the partial evidence of the run on repo during the recent financial crisis, and presents new empirical evidence to support the model's main prediction on haircut sensitivities.

3:45pm - 5:15pm
Lecture Theatre 05

SUN4-05: Financing decisions, compensation and shareholders' value

Session Chair: **Daehyun Kim**, The University of Texas at Austin, United States of America

Leverage and employee compensation in the banking sector

Ata Can Bertay[1,2], **Burak R. Uras**[3]

[1]Ozyegin University, Turkey; [2]World Bank, USA; [3]Tilburg University, Netherlands

This paper investigates the empirical relationship between financial structure and employee compensation in the banking industry. Using an international panel of banks, we show that well-capitalized banks pay higher wages to their employees. Our results are robust to the inclusion of various bank and country level control variables; bank, year, and country fixed effects and alternative proxies of bank leverage and alternative employee compensation measures. We address endogeneity concerns by using lagged variables and applying an instrumental variable analysis. In order to account for the positive association between bank capital and employee compensation, we also illustrate a stylized 3-period model. High compensations in the financial industry received increasing criticism over the course of years following the great recession, whereas capitalization of banks have been encouraged. Our paper is the first to highlight that there is an empirically visible trade-o between the two that policy need to pay attention.

Connectedness and SME finance: Evidence from post-communist economies

Kobil Ruziev

UWE Bristol, United Kingdom

Building on two distinct but relevant streams of literature, i.e. financial development and institutional economics, this study aims to investigate the role of interpersonal connectedness in gaining access to formal finance for SMEs and its allocative consequences in 28 post-communist economies (PCEs) of the former Soviet Union and eastern Europe.

Enterprise access to formal finance is generally lower in emerging economies: almost one-third of enterprises in emerging economies cite lack of external finance as either the main or a severe obstacle to their operation and growth (Beck and Demirguc-Kunt, 2008). Poor access to financial services in developing countries may be due to high fixed costs associated with the provision of financial services and tight entry regulations (Claessens and Perotti, 2007). Also, countries with low incomes will lack a sufficiently large pool of domestic savings to be efficiently mobilised to meet the enterprises' demands for external finance. However, the persistence of the problem over a longer run can also be explained by political factors: reforms changing the status quo could also challenge the ability of the incumbent elite to extract rents, and as a result no credible fundamental reforms will be undertaken (Acemoglu et al., 2005).

Under perfectly functioning market conditions, enterprises should be indifferent between alternative sources of external finance (Modigliani and Miller, 1958) and all projects with positive net present value should be financed regardless of the enterprise size. But, in practice, of all the possible sources of external finance, SMEs rely greatest on bank loans (Cressy and Olofsson, 1997; Hussain et al., 2006; Berger and Udell, 1996). Further, the distribution of limited formal finance is skewed against SMEs, who also pay higher loan rates than their larger counterparts (Beck and Demirguc-Kunt, 2006; de la Torre et al., 2010; Pissarides, 1999). Unequal access to finance affects growth, because some profitable entrepreneurial initiatives may never come to fruition, while others which fail to raise external finance will operate at sub-optimal levels, despite having high capital productivity (Claessens and Perotti, 2007, p.573).

The traditional explanation of the unequal distribution of finance emphasises market and information imperfections as the main underlying cause of misallocation (Mina et al., 2013, p. 808). SMEs are not scaled down versions of large enterprises (Beck, 2013); they are usually younger, informationally more opaque, face stiffer competition in product markets, which affects cash flow predictability over the medium to long term, and are less likely to possess acceptable collateral (Armstrong et al., 2013, R39; Pissarides, 1999, p.522). In addition, despite SMEs accounting for more than 95 percent of enterprises, banks cannot fully utilise the law of large numbers to exploit the economies of scale and enjoy associated diversification benefits when lending to SMEs as they do with retail clients (Beck, 2013). Consequently, lending to SMEs is riskier, explaining lower supply and higher cost of loans to the sector (Berger et al., 2001).

A more recent approach adds an additional dimension to this explanation by emphasising the role of institutional and political factors in the economic process. The institutional approach describes modern market-based economies as composing of anonymous markets, impersonal bureaucratic organisations, and communitarian institutions that depend upon interpersonal networks (Dasgupta, 2005; Weber, 1968). Entrepreneurial decisions respond to market prices, rules, and regulations, which signal incentive and constraint mechanisms. And, impersonal public and private bureaucratic organisations, which operate under the rule of law, facilitate the process of investment, production, and exchange by impartially enforcing rules, regulations, and contracts (North, 1990).

The interrelationship between the three layers of the economic structure is dynamic and changes with the level of economic development (Stiglitz, 2001). Bureaucratic institutions usually lack in credibility and efficiency in thin and underdeveloped markets, weakening the operation of the market-based incentive and constraint mechanisms. As a result, their role is partly replaced by community-ruled horizontal webs of interpersonal networks which will grow in importance in production and exchange relations (Stiglitz, 2001, p.64). Consequently, a thick network of exclusive interpersonal relations, in the form of a collection of networks and an aggregation of reputations, will emerge to resolve allocative and redistributive questions, including access to formal finance.

Political establishment is also less impartial, affecting economic outcomes formally through red tape, and informally, through individual connections and interpersonal relations. Growing evidence suggests that political connections play an important role in gaining access to formal finance, and that larger enterprises gain more benefit from such connections (La Porta et al., 2002; Faccio et al., 2006; Li et al., 2008; Ayyagari et al., 2010). Entrenched elites may influence business environment by adopting formal rules and regulations to protect their rent-seeking interests, creating unfavourable constraints and obstacles for the operation of enterprises. This may result in a culture of favouritism and bribery, further suppressing efficient market-based impersonal exchange and resource allocation (Fedderke et al., 1999, p.734). International evidence suggests that smaller firms suffer more from such constraints (Schiffer and Weder, 2003).

Alternative views, however, exist on the ultimate impact of corruption and rent-seeking behaviour on resource allocation and social welfare. It can be argued that because successful firms generate more surplus, they can better afford to offer bribes and kickbacks and gain advantageous access to scarce resources such as bank finance, resulting in a socially beneficial outcome (Duvanova, 2012; 2014, p. 300; Li, 1996; 1998). This view,

however, ignores interpersonal nature of relationships between public officials and entrepreneurs when supposedly 'impersonal' bureaucratic organisations do not enjoy full credibility. Interpersonal networks will be used more often when impersonal markets are suppressed, rent seeking behaviour is prevalent, and rules and laws are dysfunctional (Dasgupta, 2005).

But, soliciting bribes is not costless for corrupt bureaucrats even under these circumstances: there is always a danger that they may be caught in the process (Duvanova, 2014; 300). (Unless of course there is a complete failure of state and relevant bureaucratic institutions, in which case, corruption becomes endemic and possibly overt.) To minimise this risk, they are more likely to cooperate with people whom they know well and can trust. Hence, having right contacts and interpersonal connections becomes more valuable than simply affording explicit monetary payments as bribes.

Although interpersonal links may require some form of eventual pecuniary reward in exchange for favours, mutual unpaid obligations may dominate when one has contacts as these can be used repeatedly in future and may produce potentially continuous benefits to the parties involved in the network. Importantly, not all entrepreneurs are fortunate to have economically beneficial interpersonal networks, and, the most valuable networks are also the most exclusive.

Belonging to a single network may also open access to other networks as some entrepreneurs will have membership to multiple networks. For example, an entrepreneur may gain an indirect access to formal finance through his connections with a government official. Interpersonal and exclusive nature of such personal networks indicate that a small number of strategically well-connected entrepreneurs can often seize a disproportionately large share of common resources and opportunities, resulting in allocative inefficiency (McKean, 1992). This compares to large anonymous market-based exchange systems which are more efficient because “the best” buyer or seller may not be a part of exclusive networks (Serageldin and Grootaert, 2001, p.53).

Despite the intensification of market-based exchanges and improving credibility of formal bureaucratic organisations in most of the PCEs, evidence suggests that public officials and civil servants in otherwise impersonal bureaucratic organisations still personalise their positions by using the rigidity of rules and regulations as an excuse for rent-seeking (Duvanova, 2012; 2014)‒a phenomenon Rose (2001) described as an organisational failure; and smaller enterprises are affected disproportionately more by these institutional constraints (Ruziev and Midmore, 2015; Schiffer and Weder, 2003).

Overall macroeconomic conditions such as per capita income levels, depth of financial sector development, and progress made in banking and enterprise reforms vary significantly amongst the PCEs. An important caveat, however, is that these aggregate indicators are rather broad and do not fully reflect more specific institutional and financial constraints that SMEs face. For example, while more developed financial systems generally offer better access to financial services, aggregate measures of financial development such as private sector credits, broad money, banking sector assets etc do not provide enough information about breadth and quality of financial depth, and neglect, for example, the proportion of economically active entities responsible for the utilisation of available formal finance (Claessens and Perotti, 2007, p. 751).

The data used in this study comes from the 2011-2014 Business Environment and Enterprise Survey (BEEPS V) - a joint initiative by the European Bank for Reconstruction and Development (EBRD) and the World Bank, which covers more than 14,000 enterprises in 28 PCEs of the former Soviet Union and Eastern Europe. Since SMEs are not scaled down versions of large enterprises and hence face qualitatively different obstacles for their operation and growth, we extracted a sub-sample containing only SMEs from the original data for the purpose of this study. There are over 11,000 SMEs in our sub-sample, so the size of the dataset is relatively large. The target variables such as interpersonal links, corruption etc come from the government-enterprise relations section of the survey. In terms of the estimation methodology, we employ multivariate probit models to test our hypotheses, including sophisticated Heckman-type selection models to control for possible sample selection and omitted variable biases (Cavaluzzo and Wolken, 2005; Cameron and Trivedi, 2010; Wooldridge, 2002).

The study finds that despite being positively and significantly associated with improved access to bank finance, various measures of interpersonal connectedness are not associated with SME growth, with implications for resource allocation. Findings of the study have further important policy relevance. For example, given the unequal distribution of formal finance between SMEs and large enterprises, policy-makers in emerging economies mostly focus on increasing the flow of formal finance to the SME sector. However, the finding of this study suggest that, policy-makers should be concerned not only about measures that facilitate increased availability of formal finance, but also, and more importantly, about longer-term improvements in capacity building such as establishing more transparent financial systems and more efficient bureaucratic organisations, leading to more efficient allocation of formal finance.

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Board classification and shareholder value: Evidence from a natural experiment

Daehyun Kim

The University of Texas at Austin, United States of America

This study examines the shareholder value impact of board classification. Prior studies find a negative correlation between classified boards and shareholder value, but do not establish causality. A concern is that the negative association can be interpreted as either a negative shareholder value effect of classified boards or as an equilibrium corporate governance phenomenon, resulting in contradictory policy implications. This study contributes direct and causal evidence using a natural experiment based on corporate law amendments that impose a board classification change. The market reaction surrounding legislative events identifies a perceived shareholder value change caused by the prospect of an exogenous shift in board classification. The results suggest that the market perceives classified boards as reducing shareholder value and declassified boards as improving it. This evidence is consistent with shareholder activists' argument that board declassification benefits shareholders.

3:45pm - 5:15pm
Seminar Room A

SUN4-06: Financial instruments and risk exposure

Session Chair: **Sean Pinder**, The University of Melbourne, Australia

Sovereign to corporate risk spillovers

Hamid Boustanifar[1], Patrick Augustin[2], Johannes Breckenfelder[3], Jan Schnitzler[4]

[1]BI Norwegian Business School, Norway; [2]Desautels Faculty of Management - McGill University; [3]European Central Bank; [4]VU University

We document significant spillover effects from sovereign to corporate credit risk using the announcement of the first Greek bailout on April 11, 2010, which represents an unexpected shift in the perception of sovereign risk of all European countries. A ten percent increase in sovereign credit risk raises corporate credit risk on average by 1.1 percent after the bailout. These effects are more pronounced in countries that belong to the Eurozone, that are more financially distressed and that have weaker property rights. Financial dependence, public ownership and the sovereign ceiling are channels that enhance the sovereign to corporate risk transfer.

Actual share repurchases, price efficiency, and the information content of stock prices

Pascal Busch[1], Stefan Obernberger[2]

[1]University of Mannheim, Germany; [2]Erasmus University Rotterdam

We examine the impact of actual share repurchases on stock prices using several measures of price efficiency and manually collected data on repurchases of all U.S. stocks between 2004 and 2010. We find that share repurchases make prices more efficient. In particular, share repurchases increase the accuracy of the stock price after negative information comes to the market. We conclude that share repurchases make prices more informative by providing price support at fundamental values. We find no evidence that managers use share repurchases to manipulate prices before selling their equity holdings or that share repurchases incorporate private information.

Exchange-rate pass-through and exposure under various oligopolistic frameworks

Athanasios Andrikopoulos[1], Xeni Dassiou[2]

[1]Hull University Business School, United Kingdom; [2]City University London,United Kingdom

We discuss the implications of exchange rate movements on competition, profits and prices into a unified framework of markets of differentiated goods under imperfect competition. We develop and empirically test two novel and more realistic models of exporting firms to study pass through and exchange rate exposure. We explore the impact of exchange rate fluctuations on the between-and within competition in price and quantity setting models. The models are empirically tested to confirm our theoretical hypotheses as these are derived from our models.

An analysis of real options in a natural setting

Steve Easton[1], Sean Pinder[2], Steven Stern[3]

[1]University of Newcastle, Australia; [2]University of Melbourne, Australia; [3]Queensland University of Technology

While the theoretical literature on real options is voluminous, much of the examination of that literature relies on qualitative case-study evidence. We exploit the features of the game of limited overs cricket, and in particular the use of the Duckworth-Lewis-Stern system of dynamic benchmarking which is formally integrated into that game, to provide a quantitative analysis of the central role of real option strategies in a natural setting.

3:45pm - 5:15pm
Andrew Cormack

SUN4-07: Agency, valuation and innovation

Session Chair: **Vicky Kiosse**, Exeter University, United Kingdom

Influencing control: Jawboning in risk arbitrage

Wei Jiang[1], Tao Li[2], Danqing Mei[3]

[1]Columbia Business School; [2]University of Warwick, United Kingdom; [3]Columbia Business School

This is the first study on a relatively new phenomenon of "activist risk arbitrage," in which some shareholders attempt to change the course of an announced M&A deal through public campaigns and appraisal appeals in order to profit from improved terms for either target or acquirer shareholders. Compared to conventional (passive) risk arbitrageurs, activist arbitrageurs are more likely to select deals that are susceptible to managerial conflicts of interest, including going-private deals, "friendly" deals, and deals with lower announcement premiums. While activist risk arbitrage does not significantly change the probability of deal completion, it increases the sensitivity of deal completion to market price signals. Finally, activist risk arbitrage yields significantly higher returns than passive arbitrage, with little incremental deal risk.

S-curve approach in young firms valuation

Rafał Siedlecki, Daniel Papla, Tomasz Słoński

Wrocław University of Economics, Poland

Fundamental valuation of companies in the early stage of their development gains little support from the mainstream valuation theory. The standard set of fundamental valuation inputs (Damodaran 2009) in case of newly established firms becomes unattainable or unreliable. Since s- curve is frequently used to describe economic or natural phenomena which obey the logistic growth law, the valuation model presented in this paper uses s-shaped patterns for cash flow projection. As a result the valuation model enables alternative value drivers' description regarding firm's capacity to

grow and cash flow momentum. The example of CCC valuation gives many insights into the subject of young firms valuation and risk analysis.

The big innovation bang

Diego Ostinelli
University of Zurich, Switzerland

This paper investigates the role of stock market development on innovation. With a quasi-natural experiment I exploit the London Big Bang, a large and exogenous shock to stock market regulation that occurred in the United Kingdom in 1986 and show that improved stock market conditions foster innovation. In particular, firms belonging to more external finance dependent industries increase their innovation output following the deregulation. I identify a possible mechanism through which a more efficent stock market has a positive effect on innovation: whereas firms belonging to low external finance dependent industries and firms belonging to high external finance dependent industries raise equity after the deregulation, only the latter issue less long term loans.

Defined benefit pension schemes, excess cash and agency problems

Meng He[1], Steven Young[1], Vicky Kiosse[2]
[1]Lancaster Univeristy, United Kingdom; [2]Exeter University, United Kingdom

This study investigates the intervening effect of defined benefit (DB) pension schemes on irregular payouts of excess cash. The evidence indicates that the existence of DB schemes lowers both the propensity and the magnitude of excess cash distributed to shareholders. Further study reveals that DB schemes also help to limit the scope of over-investment problems. Firms with DB schemes spend significantly less surplus cash on subsequent investments than firms without DB schemes. Nevertheless, this study also justifies the Pension Regulator's concern that managers distribute funds that could potentially be used to fund DB schemes. The evidence is found that transitory cash flow shocks will be paid out to shareholders in spite of DB schemes.

Print View

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